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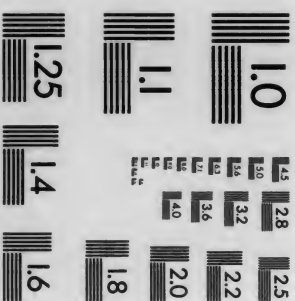


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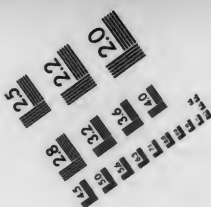
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—
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Hearings.

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**COST ACCOUNTING AND COST REPORTING
FOR FEDERAL AGENCIES**

HEARINGS

BEFORE A

**SUBCOMMITTEE OF
THE COMMITTEE ON COMMERCE
UNITED STATES SENATE**

SEVENTY-FOURTH CONGRESS

FIRST SESSION

ON

S. 1

A BILL TO PROVIDE FOR THE ESTABLISHMENT AND
MAINTENANCE OF A PROCEDURE FOR COST
ACCOUNTING AND COST REPORTING
FOR FEDERAL AGENCIES.

FEBRUARY 26 and 28, 1935

Printed for the use of the Committee on Commerce



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SENATE

SEVENTY-FOURTH CONGRESS, FIRST SESSION

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III

COST ACCOUNTING AND COST REPORTING FOR FEDERAL AGENCIES

TUESDAY, FEBRUARY 26, 1935

UNITED STATES SENATE,
SUBCOMMITTEE OF COMMITTEE ON COMMERCE,
Washington, D. C.

The subcommittee met, pursuant to call, at 10 a. m., in the committee room, Capitol, Senator Bennett Champ Clark presiding.

Present: Senators Clark and White.

Present also: Senator Copeland.

Senator CLARK (presiding). The subcommittee will come to order. This is a hearing on bill S. 1, to provide for the establishment and maintenance of a procedure for cost accounting and cost reporting for Federal agencies. The bill will be made a part of the record.

(The bill, S. 1, is as follows:)

[S. 1, 74th Cong., 1st sess.]

A BILL To provide for the establishment and maintenance of a procedure for cost accounting and cost reporting for Federal agencies

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That hereafter, except as may be specifically provided by Congress, appropriated or other moneys otherwise available to any Federal agency, including special deposits for such purposes, shall not be expended to pay operation, maintenance, and/or other costs of any facility while engaged upon the production and/or manufacture of supplies, materials, articles, things, or services which may be procured from or through regular commercial manufacture or enterprise at a total cost less than the total cost incurred by any such Federal agency unless an estimate or bid is offered by such Federal agency in competition with private bidders, and such estimate or bid shall include every reasonable item of cost customarily incurred by private bidders for the subject matter of competition: *Provided*, That the Comptroller General of the United States shall prescribe the forms, systems, and procedure for cost keeping and cost reporting by such Federal agency.

SEC. 2. The terms "Federal agency" and/or "Federal agencies" used in this Act shall mean any executive department, independent commission, board, bureau, office, corporation, other establishment, or agency of the Government, including the municipal government of the District of Columbia, but not including the legislative or judicial branches of the Government of the United States.

SEC. 3. Terms embodied in the systems of accounting required by section 1 to be prescribed by the Comptroller General of the United States shall be construed to have meanings as hereinafter defined:

(a) The term "total cost" includes all expenses incurred for direct labor, direct materials, direct expenses, and all overhead expenses used in or pertaining to the operations coming within the scope of this Act.

(b) The term "direct labor" means salaries, wages, or other compensation for labor directly performed upon the work undertaken or upon the component parts of the articles or things produced.

(c) The term "direct material" means the cost of raw materials and purchased component parts entering directly into the work undertaken or into the articles or things produced, including, where specifications call for special packages and containers, the cost of such packages and containers. The cost of direct materials

shall be the invoice cost less any trade or quantity discount, plus all expenses of transportation.

(d) The term "direct expenses" means expenses of whatever nature directly appertaining to the work undertaken or to the articles or things produced, including traveling and other field expenses occasioned by and solely in connection with a specific project; and/or professional services, engineering, plans, and drawings for a specific project.

(e) The term "overhead expenses" means—

(1) Expenditures made by a Federal agency applicable to and necessary to the performance of any work or operation undertaken, or to the production of any article or thing produced, and not properly chargeable to "direct labor", "direct material", or "direct expenses", and which can be allocated to two or more simultaneous or successive projects within an accounting period, including supervision, indirect labor (such as factory trucking, cleaning, inspection, and other labor, the cost of which is not included in other overhead items); supplies (such as oils, waste, cleaning, hardening, tempering, and grinding supplies); fuel used, other than in the production of light, heat, and power; small tools (such as drills, files, reamers, and saw blades); water; repairs to buildings, machinery and equipment; depreciation and obsolescence of plant and equipment; light, heat, and power, including fuel and powerhouse wages; engineering, plans, and drawings; factory management and general plant expense (such as telephone, stationery, purchasing department, cost and time-keeping departments, safety work, fire prevention, sanitary supplies); and property taxes: *Provided*, That the foregoing enumeration of specific items and advisory illustrations shall not be held to exclude such other items as are properly chargeable to overhead expense in accordance with prevailing and generally accepted accounting practice in private industry.

(2) A fair share of every administrative expense of, and/or an amount equal to the total cost (to be determined in conformity with the provisions of this Act) of services rendered and/or supplies furnished by, every Federal agency involved in the performance of any work or operation undertaken, or in the production of any article or thing produced.

(f) The terms "wages", "salaries", and "other compensation", whether included as a part of direct labor cost or as an item of overhead expense, shall include the remuneration paid to public employees during leave of absence and for holidays.

(g) Whenever and wherever "overhead expenses", or "administrative expenses" are allocable to two or more simultaneous projects, or to successive projects in the same accounting period, such allocation shall be made on a fair and equitable basis and in accordance with bases commonly accepted and followed in cost finding for private industry.

SEC. 4. Every Federal agency shall promptly prepare, and keep reports of costs in conformity with the cost accounting systems and procedures to be prescribed as herein required, which shall clearly show the charges made for each of such items of cost, and if such cost includes the amounts for overhead expenses allocable to more than one project, shall, by specific schedule, or by reference to standard schedules on file, set forth the basis on which such allocation was made. The report shall show separately (1) the costs incurred in respect to funds disbursed from the current year's appropriations, and (2) the costs incurred representing the calculated or allocated cost of services or facilities which apply to appropriations other than those for the current year. Whenever and wherever any item or items of cost actually incurred by private industry (such as insurance, compensation to employees for accidents and diseases arising out of industrial employment, taxes, licenses, import duties, performance bonds and penalties), are not included in cost as herein required to be determined and reported because no expenditure therefor was made, such item or items shall be fully and clearly disclosed in each such report of cost.

SEC. 5. Every Federal agency shall annually prepare a report on all work undertaken or articles or things produced during the preceding fiscal year, which report shall show all of the costs entering therein, and the relation of such costs to estimates submitted, and in addition shall set forth all losses occasioned during such fiscal year through the dismantling or abandonment of property, equipment, or facilities used in or for such work or production or theretofore used for like work or production, and the relationship of such losses to depreciation charges or other overhead expense included in the total cost of work undertaken, whether during the current year or in other years.

SEC. 6. All reports required by sections 4 and 5 shall be public records, available for inspection. Copies thereof may be had upon application and payment of a suitable fee under reasonable rules and regulations to be made by the head of the Federal agency required to maintain such reports.

SEC. 7. The Comptroller General of the United States is hereby authorized and directed, after the enactment of this Act, to make the provisions thereof operative. To that end the Comptroller General of the United States shall promulgate such reasonable rules and regulations as may be necessary.

Senator CLARK. Congressman Pettengill, do you have a statement you desire to make to the committee?

Representative PETTENGILL. Yes, Mr. Chairman.

Senator CLARK. We will be very glad to hear you.

STATEMENT OF HON. SAMUEL B. PETTENGILL, A REPRESENTATIVE IN CONGRESS FROM THE THIRD DISTRICT OF INDIANA

Representative PETTENGILL. I am very glad to appear before the committee in behalf of this bill, introduced by yourself and my colleague in the House, Mr. Shannon. I will speak rather briefly because I spoke an hour or an hour and a half a year ago before the House committee considering the subject, and that statement is available to you in those hearings.

I am a sort of collateral ancestor of this bill because in May or June 1932 Speaker Garner appointed a committee, consisting of Mr. Shannon as chairman, Mr. Rich of Pennsylvania, Mr. Cox of Georgia, Mr. Stafford of Wisconsin, and myself, to inquire into the whole subject matter of Government competition with private industry.

We held hearings all over the United States during that summer and fall, hearing 625 witnesses, accumulated a typewritten transcript comprising 42 volumes, and made a report in February of 1933, almost 2 years ago exactly. That report had this to say upon the matter that is pertinent to your investigation this morning—I am quoting now from the report of the committee entitled "Government Competition with Private Enterprise", being House Report No. 1985, of the Seventy-second Congress, second session:

Government cost finding.—The committee recommends that the Government departments and agencies be required by the Congress to install and maintain a uniform system of accounting, containing all the elements of cost finding, which the best practice has sanctioned for public utilities and private industrial and commercial enterprises.

The committee believes that the results of such a system of accounting would be invaluable to Congress in considering proposals for the continuance and maintenance of existing Government departmental, industrial, and business activities, and in passing upon new undertakings which may be submitted for congressional action.

The establishment of such governmental accounting methods will also make possible a comparison between public and private costs of production and of service.

And another ancestor of this bill is the statement that appears in the Democratic national platform of 1932, which called for—

The removal of Government from all fields of private enterprise, except where necessary to develop public works and natural resources in the common interest.

I said last year before the House committee, and I think what I said then is applicable today:

The day is shortly going to be faced by this Congress and the American people when the question will be, who is going to pay the bill for this huge recovery

program; where are the profits to come from; where are these billions of dollars to be repaid from in the days to come? If they cannot be paid out of the future profits of private enterprise, they cannot be paid at all.

And I believe that, Senators, from the crown of my head to the soles of my shoes. I do not care what your theory of government may be, or that of any other American, whether you believe in the totalitarian state of Mussolini or in the rugged individualism of the days gone; whether you believe in the T. V. A. or do not believe in the T. V. A.; whether you believe the Government should operate as Mr. Sinclair out in California advocated—factories, refrigeration plants, warehouses, and canning plants—or not, still this is an important bill regardless of one's philosophy of government.

Personally I believe in the old American system of private initiative and private enterprise as it had its birth here in our country. But whether you believe in the Government going into every enterprise, or whether you believe that you should stay out of enterprises except those connected with national defense and natural resources, still we ought to know what the cost is, and that I am firmly convinced is something that we do not know.

Senator CLARK. That is the whole theory of this bill, isn't it? If the Government departments are to go into business and operate at a loss, or at a greater expenditure than the same articles can be obtained from private enterprise, even though they have the right to do it, the Congress should know what it costs.

Representative PETTENGILL. I think so. And the man who pays the bill is entitled to know it, too. On a newsstand I picked up this number of the Forum, a magazine, and Dr. Morgan, the Chairman of the T. V. A., has this to say:

The President feels there ought to be here and there cases of public ownership which can serve as comparisons, and if they are to serve as comparisons they must be open and aboveboard, with nothing hidden. They must compare with any special arbitrary conditions. They must pay taxes just as private utility companies must do, and every other reasonable charge, if they are to provide us with a fair comparison.

And certainly whether we look at this bill from the standpoint of a fair yardstick to determine whether the Government can do things which have been done by private industry, and, if so, fairly enter into the competitive field with American business, or whether we look at it purely from the standpoint of ascertaining what it costs either from the standpoint of the taxpayer or from the standpoint of private business, the Government ought to know what it costs. We want to be able to show whether the Government can do the work cheaper than the Government can have the work done outside. If there are any hidden costs under such Government operations, we are entitled to know of them. They should be brought to light. In either event, this bill will provide a proper procedure for cost accounting and will give us the information and data we are entitled to have.

Senator COPELAND. Does Dr. Morgan in his article indicate that they are setting up such a cost-accounting system in the T. V. A.?

Representative PETTENGILL. No. That is not covered here in this article in the Forum, and I do not know what the fact is with reference to that matter.

I am informed, however, that the Tennessee Valley Authority is granted the free use of the United States mails for all purposes,

including the sending out of bills to consumers, and also advertising, etc.

Congress has decided to have a Government yardstick at Muscle Shoals to measure the cost of light and power furnished by private utilities. That decision is no longer before us. My point is that if we are to have a yardstick it should be as honest as daylight, as straight as the bar of metal in the Bureau of Standards, and I confess that I lose faith in the yardstick when I find the Government incurring no postage expense when it is operating in a business capacity in competition with its own citizens. We found that was true with respect to the Mississippi River Barge Lines. Postage is a small item, in itself, but it shows the way the wind blows. I know when we had 3-cent city postage many utilities distributed their bills by hired messengers to save postage, and it seems unfair to me that when the Government goes into the power business it has the services of the mailman for nothing. I assume, unless corrected, the same circumstances prevail, or will prevail, at Boulder Dam, Grand Coulee, etc., as well as in our new venture in subsistence homesteads. If we are going into these projects, and I am not now arguing the point, at least let us be honest with our costs, and not try to fool our taxpayers or ourselves.

Senator CLARK. You may proceed.

Representative PETTENGILL. Another rather strange thing is this: I remember when the Reedsville factory matter came up a year ago, when it was under debate, the question whether the Government should build a furniture factory at Reedsville, or not, I learned to my astonishment that the N. R. A. code covering the furniture industry of America prohibited private furniture factories from being built in America unless they first obtained permission of the N. R. A. And yet at the same time there was a strong effort made, against the will of private enterprise in that field, to erect a furniture factory to compete with the industry, to erect that factory with tax money taken from these others, and thus compete unfairly with them.

And another astonishing thing of this Mad Hatter Bureaucracy of ours is the fact that the National Industrial Recovery Act expressly gives to the N. R. A. Administrator the power to insist that all American industry coming within the N. R. A. codes shall have cost-accounting systems and submit such cost-accounting systems to the Administrator of the N. R. A. And at the same time the heads of these great bureaus of ours are going ahead with their vast expenditures of public money, and are objecting to a cost-accounting system covering their operations.

Senator COPELAND. Do I understand that they really do object to it?

Representative PETTENGILL. Yes; they do.

Senator COPELAND. What evidence have you of that?

Representative PETTENGILL. The evidence is contained in the House hearings of a year ago, pages 269 and thereafter. There are letters from the Assistant Secretary of the Navy, Secretary of Agriculture, Secretary of War, Secretary of Commerce, Secretary of the Treasury, Secretary of the Interior, Frank T. Hines, Administrator of Veterans' Affairs, the Post Office Department which for a hundred years has accumulated an annual deficit, and other documents of that sort, from which you may see the position they take.

Senator COPELAND. Would it not be well to have the reference for the record?

Senator CLARK. The committee will be very glad if Congressman Pettengill will give us those references in connection with his statement.

Representative PETTENGILL. I will be glad to do so. They will be found in our proceedings.

Senator CLARK. I might say, Senator Copeland, that we have had several communications in regard to this bill this year, one from the Navy Department and one from the Commerce Department.

Senator COPELAND. In opposition?

Senator CLARK. Yes; they oppose it.

Representative PETTENGILL. However, Senator Copeland, I should like to say that the Chief Accounting Officer of the United States Government, Mr. McCarl, is very strongly in favor of the bill.

Senator CLARK. And he has again endorsed it this year?

Representative PETTENGILL. Yes. I am glad to have you tell me so, Senator Clark. That is found in these House hearings.

Senator COPELAND. Could you give us in a word the reasons they present for opposing such a system?

Representative PETTENGILL. Well, they say in some instances that repair jobs found necessary in a navy yard or at an Army post here, there and elsewhere, are an indication of how it would not work. For instance, they say in the case of a wheelbarrow that gets kicked over by an army mule, that they do not want to have an accounting system to determine how much it costs to repair such a wheelbarrow. In other words, if I am not in error, they try to ridicule the bill by applying it to a great minutiae of detail.

Senator COPELAND. Of trivialities.

Representative PETTENGILL. Yes, sir. And of course we all believe in being reasonable about these things. I think in case of small matters, say, under \$5,000, or repair jobs or something of that sort, they ought to be excepted. We do not want to build up a tremendously cumbersome cost-accounting system by overdoing it, of course not. Then others take the position that they feel their accounting practices are substantially sound anyhow. But that is not the view of Comptroller General McCarl. Mr. McCarl is very strongly for this bill. He thinks it will save the Government many millions of dollars.

Senator CLARK. It is a fact that the opposition has come from bureaucrats whose present methods the bill is designed to restrict, isn't it?

Representative PETTENGILL. Exactly. It is like putting a halter on a colt that has never been broken.

Now, Mr. Chairman, I have a meeting of my own committee in the House this morning, and I should like now to submit, if you care to have it, what I said a year ago. I spoke at great length then, and should like to give you that as a summary of the findings of the Shannon Committee.

Senator CLARK. All right. We will be very glad to have you submit that data.

Representative PETTENGILL. I am very happy to support your bill, Senator Clark. I am very happy to put behind it what little I learned in the 6 months or more of most sincere effort, as sincere an effort as I ever took part in. I am one of those men who admits

without blushing that he is a Democrat and not a Socialist. I believe in the principles of our party as they have been historically developed.

Senator CLARK. I have some predilections along that line myself.

Representative PETTENGILL. I am glad to know that.

And let me add that I am not unaware of the evils that have gotten into the American system. My difference with the Socialist and Communist is that he thinks we must destroy the system to destroy its evils, whereas I think we can destroy the evils and save the system. In other words, I think the evils are functional and not organic.

If we destroy the system, the system that has built America, what will we get in its place? Will the new system, whatever it is, have no evils? As I look abroad to Italy, Germany, and Russia, where they are trying different substitutes for private enterprise, I think I notice that the wheels of their wagons are sticking in the mud, also. It is an old saying that the grass on the other side of the fence looks the greenest, but when we examine it, we are apt to find weeds growing there, as well as on this side.

Mitchell and Insull and that type are really not necessary cogs in the wheels of business. They are barnacles. They developed Napoleonic hallucinations and fed their ego with other people's money. The sooner they go the better. Business men should divorce themselves from that leadership. What we need are industrial statesmen rather than Ponzi financiers. And I think American business is ready to dissolve partnership with the men who gave American business a black eye. If they are not cured, and "the hog returns to his wallow", the old system cannot endure, and ought not to endure.

The day of banking racketeers and human exploitation is gone, or the American system is gone. The day of 25 or 50 or 100 percent annual dividends is gone. The supreme problem facing us is to strike a new balance between profits and wages. The machine age compels it, as a matter of economics as well as matter of social justice. Otherwise there will be no market for the products of the machine, and no profits for the owners of the machines.

American business must be rebuilt on an enlarged base of the economic pyramid. The workers must receive more, the invested dollar less. But when the worker gets more, the dollar becomes secure. When men earn wages, dollars earn dividends. I believe American business is rapidly becoming aware of that fundamental truth. If so, we do not need to resort to European substitutes for the American system.

I have digressed to make it clear that I am not an apologist for the evils of the past. I know that the system of private enterprise cannot endure, unless those evils are removed, as with a surgeon's knife. And now to go back, let me say that I view with a great deal of concern this constant reaching out of these government business corporations, incorporating under the laws of Delaware, if you choose, to go into vast operations that Members of Congress at the time the various legislative acts were passed had no conception they were going into.

I thank you very much for hearing me.

Senator COPELAND. Just one moment: Is it your view that if this system were put into effect it would have the result of returning to private institutions much of the work now done by the Government?

Representative PETTENGILL. Let me say this Senator Copeland: During our hearings held by the Shannon committee there was some criticism of American business, and much of that criticism is justified, in my judgment. But I want to say that I am not one of those men who sneers at every American business man. I think many of them are just as honest as our politicians. [Laughter.]

Senator COPELAND. You talk a little like a New Yorker.

Representative PETTENGILL. And I trust also like an American, from any part of the Union. But they said this, Senator Copeland, and I believed them: Men representing great American businesses, whose work is being competed with by the Government in all the 200 different ways we ascertained it was being done, they said this: That they should have a cost-accounting system and bring to light all the hidden costs, the original capital investment and so on, and if they reflected any depreciation and amortization and interest charges, and set aside what that same government factory would pay in taxes, street assessments, and so forth, if it were owned privately, that they could compete at a profit with the Government at the same figure that the Government now conducts its operations at a loss, and pay as high wage scales as the Government.

In other words, Senator Copeland, the Shannon committee came to the conclusion that these costs would throw light on that question. In government operations, as you know, these hidden costs are covered in some way. They just vanish—amortization, insurance, interest charges, depreciation, obsolescence, and all those things, all of which are finally paid for by the taxpayer. They are frequently covered in some deficiency appropriation bill. All of that has to be paid for in the end.

But the Government claims, without bringing these costs into the picture, they can do the job cheaper than private industry. And yet it was rather freely admitted with reference to the Government factory at Philadelphia, manufacturing uniforms, and I am reading now from page 12 of the House committee report of a year ago:

Q. In arriving at the cost of the article you put out, do you figure interest on the investment?

A. No.

Q. And you figure no insurance cost?

A. The Government does not insure.

Q. But you admit you lose, even not figuring capital investment costs, and with no rent to pay.

A. The statement was made by General Whitehead that you lose 85 cents or 90 cents per garment at the present time.

And General Whitehead himself said that was roughly correct.

Senator COPELAND. What was the answer?

Representative PETTENGILL. In other words, in that plant at Philadelphia the Government admits it is losing money. But, of course, I want to be perfectly fair to their point of view. They claim that in the Government uniform plant up there, where they make everything from blue denim overalls up, that they were competing with the sweat shop, and that they said upon sweat-shop practices in private industry they were operating at a loss.

In that connection I would just like to say this, quoting further from the Shannon report. We do not think the Government should compete with private industry on a sweat-shop basis:

The committee believes that the Government, as the largest purchaser of goods in the Nation, should not sacrifice the welfare of workers to the sole consideration of economy. On the contrary, we feel that the Government has a distinct obligation to set standards which shall maintain and even improve the ability of workers to buy the products of a mechanized civilization.

That quotation from our report was written by me, and I take some small degree of pride in it. I do not think the Government should operate on a sweat-shop basis, if it operates at all. But if it does operate it should operate on an honest basis, with full disclosure of all items of cost.

Senator COPELAND. Then they have professed to be competing with sweat shops?

Representative PETTENGILL. That is what they say, and paying more than sweat-shop wages, as they say.

Senator COPELAND. Then the only way a sweat shop could compete would be to still further reduce prices in the sweat shop?

Representative PETTENGILL. That is right.

Senator COPELAND. So that the ultimate effect would be to still further depress the standard of living of human beings working in sweat shops. Do you agree with that?

Representative PETTENGILL. Well, I am not entirely clear whether I followed your train of thought just at that last question.

Senator COPELAND. They profess to believe that they have to do this, or at least admit that they do it in competition with sweat shops, is that it?

Representative PETTENGILL. Yes, sir.

Senator COPELAND. That is where it would be cheaper work?

Representative PETTENGILL. Yes, sir.

Senator COPELAND. Well, then, if a sweat shop desires to enter the field of competition they would still further have to reduce the piece-work price paid by the sweat shop?

Representative PETTENGILL. That is right.

Senator CLARK. In other words, then, the result of the Government going into the business would be to still further reduce the wage base of private concerns that have to compete with the Government.

Representative PETTENGILL. If they would compete, yes; because, among other things, the private plant pays taxes to support its governmental competitor and this would have a tendency to cause the private plant to make up its tax item in lower wages.

Senator CLARK. We thank you very much, Congressman Pettengill, for your statement.

Representative PETTENGILL. And I thank you for the opportunity to be heard.

(Thereupon Representative Pettengill left the committee hearing room.)

Senator CLARK. The committee will now hear Mr. Emery. Come forward to the committee table and state your name, address, and whom you represent for the record, please.

STATEMENT OF JAMES A. EMERY, COUNSEL OF THE NATIONAL ASSOCIATION OF MANUFACTURERS, TRANSPORTATION BUILDING, WASHINGTON, D. C.

Mr. EMERY. My name is James A. Emery. I am general counsel of the National Association of Manufacturers, and represent a group of manufacturing organizations and chambers of commerce shown on the paper I hand to the committee reporter, representing between 50,000 and 60,000 manufacturers employing in the neighborhood of approximately 2½ millions of men at the present time:

National Association of Manufacturers, 11 West Forty-Second Street, New York.
 National Founders Association, Chicago, Ill.
 National Metal Trades Association, Chicago, Ill.
 National Erectors Association, New York.
 Associated Industries of Alabama, Birmingham, Ala.
 Associated Industries of Kansas, Topeka, Kans.
 Associated Industries of Kentucky, Louisville, Ky.
 Associated Industries of Maine, Portland, Maine.
 Associated Industries of Massachusetts, Boston, Mass.
 Associated Industries of Missouri, St. Louis, Mo.
 Associated Industries of Montana, Butte, Mont.
 Associated Industries of Florida, Jacksonville, Fla.
 Associated Industries of New York State, Buffalo, N. Y.
 Associated Industries of Oklahoma, Oklahoma City, Okla.
 Associated Industries of Vermont, Rutland, Vt.
 Colorado Manufacturers & Merchants Association, Denver, Colo.
 Georgia Manufacturers Association, Atlanta, Ga.
 Indiana Manufacturers Association, Indianapolis, Ind.
 Iowa Manufacturers Association, Des Moines, Iowa.
 Louisiana Manufacturers Association, New Orleans, La.
 Manufacturers Association of Connecticut, Hartford, Conn.
 Manufacturers Association of New Jersey, Trenton, N. J.
 Manufacturers Association of Wilmington, Wilmington, Del.
 Manufacturers & Employers Association of South Dakota, Sioux Falls, S. Dak.
 Manufacturers & Merchants Association, Portland, Oreg.
 Michigan Manufacturers Association, Detroit, Mich.
 Minnesota Employers Association, St. Paul, Minn.
 Nebraska Manufacturers Association, Lincoln, Nebr.
 New Hampshire Manufacturers Association, Manchester, N. H.
 Ohio Manufacturers Association, Columbus, Ohio.
 Tennessee Manufacturers Association, Nashville, Tenn.
 Texas Manufacturers Association, San Antonio, Tex.
 Virginia Manufacturers Association, Richmond, Va.
 Brooklyn Chamber of Commerce, Brooklyn, N. Y.
 Newark Chamber of Commerce, Newark, N. J.
 Philadelphia Chamber of Commerce, Philadelphia, Pa.
 Rochester Chamber of Commerce, Rochester, N. Y.
 St. Louis Chamber of Commerce, St. Louis, Mo.
 New York Board of Trade, New York City, N. Y.

Mr. Chairman and members of the committee: The pending bill, by the distinguished Senator from Missouri, is remedial legislation which will give effect to the recommendations of a special committee of the House of Representatives which reported to that body, February 8, 1933, under House Resolution No. 235. That committee, for a period of over 8 months, investigated Government competition with private enterprise and all other questions in relation thereto that would aid the Congress in any necessary remedial legislation. As we read the measure, the Senator has drafted it in the light of continuing suggestions and discussion which have taken place since that report was made. It will remedy a serious, long-standing and ex-

panding evil which was made manifest in the extensive evidence gathered by the House committee in 9 cities of the United States from approximately 625 witnesses, during 8 months of investigation, contained in 37 volumes of testimony and disclosing over 225 forms of Government competition with private citizens.

Senator COPELAND. How many did you say?

Mr. EMERY. Over 225 forms of Government competition with private citizens.

Senator COPELAND. All right.

Senator CLARK. You may proceed with your statement.

Mr. EMERY. Nevertheless, statements to the contrary notwithstanding, this measure does not prevent the Federal Government, through its various departments and agencies, from engaging in necessary work of production or service. It does require them to maintain a uniform method of reporting the cost of its operations for the information of Congress and the country, and, where Federal establishments compete with the citizen in supplying the needs of the Government, they will be required to observe those rules of competition which the Government itself exacts from every form of commercial enterprise competing with one another. This measure, as we see it, would tend to accomplish seven major things:

1. Except as may be specifically provided by the Congress, it prohibits expenditures to sustain or operate any Federal agency producing goods or services which may be procured from private enterprise at less cost, unless such Federal agency submits an estimate or bid in competition with private bidders and include in their estimate every reasonable item of cost customarily incurred by the private bidder with respect to the subject matter of competition.

2. The bill carefully defines the items of cost to which it refers, including "total cost", "direct labor", "direct material", "direct expense", "overhead expense" and "such other items as are properly chargeable to overhead expense in accordance with prevailing practice in private industry." A fair share of administrative expense would be required to be included. All these elements, together with "wages", "salaries", and "other compensation", are carefully defined, whether referring to individual operations or allocable to two or more projects.

3. The term "Federal agency" will include every executive department, "independent commission, board, bureau, office, corporation, or other establishment or agency of the Government, including the municipal government of the District of Columbia", except the legislative and judicial branches of the Federal Government.

4. Every Federal agency would be required to prepare and keep a report of its costs in conformity with the elements defined and the procedure described. Wherever any item of cost would be incurred by private industry, such as insurance, taxes, or import duties, is not included in Federal cost, because no such expenditure was made, this is to be disclosed in the report.

5. Every Federal agency would be required to make an annual report for the preceding fiscal year, showing its costs, their relation to estimates submitted, together with losses incurred through the dismantling or abandonment of property, equipment, or facilities used in production and the relationship of the losses to depreciation charges or other overhead expense in the total cost of work undertaken, either

in the current or preceding years. This will give the Congress the first complete and adequate bit of information it ever has had with respect to the property positions of the Federal Government, and would point out to it what happens to the appropriations the Congress makes when they are transmuted into the expenditures made under your authority.

6. All the above reports of Federal agencies become public records available for inspection under reasonable rules and regulations upon payment of a suitable fee. Let me say there, in passing, that one of the objections I have heard to the bill has been that it would cause an unreasonable exposure of the private business of the Government which might be a jeopardizing of the public interest, but—

Senator COPELAND (interposing). Well, private industry is expected to disclose everything, isn't it?

Mr. EMERY. Yes, sir.

Senator COPELAND. Why not the Government?

Mr. EMERY. Well, if there is anything in the position of departments of the Government that would be against public interest, such as a disclosure of military secrets or things of that kind, the bill provides for appropriate rules and regulations to cover that, and the public interest is fully protected by that provision in the bill.

7. The Comptroller General of the United States, who is an officer of the Congress, is authorized and directed to prescribe the forms of cost keeping and reporting by the Federal agencies and to promulgate such reasonable rules and regulations as may be necessary to assure their establishment and make them effective. Thus Congress would be represented directly by the legislative officer who has been its representative for over 140 years in protecting the expenditures made under restrictions laid down by the Congress to cover its own appropriations.

Permit me to point out to the committee that under the circumstances of the depression Federal expenditures have doubled and tripled and the National Government has entered upon many new activities through a multitude of new agencies. The Congress is called upon to appropriate vast sums which must ultimately be met by taxation. It is not only the right but the duty of Congress to be informed with respect to the manner in which its vast appropriations have been expended and what becomes of the vast property into which these funds are transformed. At present its information with respect to the costs of such projects are so meager that it has, comparatively speaking, no means at hand by which to determine, in the light of past operations, the attitude which it should assume toward applications for their further support or expansion. No private business of any size could maintain its solvency without a recognized standard method of accounting through which the owner or the stockholders were accurately informed with respect to the cost of operation. This bill represents the first practical method of providing the Congress, as the board of directors of the people of the United States, with the information which it and they should possess for their own information and comparison with respect to the large and numerous operations in which the country is presently engaged.

Without minimizing the effect of the multitude of new forms of competition in which Federal establishments are engaging with the

citizen, it is our desire to focus your attention for the moment on the circumstance of that competition with the manufacturing industry.

We are the first manufacturing Nation of the world. Through the progressive development of the industrial arts, representing the application of science through invention to our resources of men and material, manufacture has become the chief source, directly and indirectly, of expanding employment, new wealth, and public revenue. Ample facilities, at reasonable cost, are available to meet the requirements of the Federal establishment. National and State legislation regulate our every activity through a network of law to protect the public interest, and you possess and exercise every power essential to guard the Government against every combination or practice which could seek unfair prices. Yet into this vast field of private enterprise the Federal Government has gradually entered and expended its operations through policies originated and developed by the Congress until, in our opinion, its present proportions and future tendencies threaten our national economy.

Originating in the limited manufacture by an agricultural people of military necessities for national defense, the Federal production of goods and services, in direct and indirect competition with its citizens, now displays a magnitude and diversity unparalleled in any free nation founded upon private initiative and enterprise. These operations and the practices developed within them are intimately related to the overwhelming cost of government, which, National, State, and local combined, now consumes a third of the national income and threatens, through tax-supported public operations and services, to reduce the opportunities and income of taxpaying industries, while steadily increasing the levies upon them. We are firmly convinced that Congress stands at the parting of the ways; for, either it will limit and return these Government activities to their appropriate place, or we shall inevitably establish within our Government the functions and objectives of a socialistic commonwealth. This, we submit, must become evident, not only from the factual circumstances of present Federal activity in the competitive field but from the enlarging policy of interdepartmental manufacture and service committed to the administrative discretion of bureau chiefs, which Congress, within this year, by new general legislation, has vastly stimulated.

In this connection, let us direct the committee's attention to an expression of congressional policy found in the Appropriation Act for the fiscal year ending June 30, 1933 (Public, No. 212, 72d Cong., title VI, Interdepartmental Work, sec. 601). This provision appeared in the so-called "economy act"; the measure was at no time the subject of notice to the public nor of committee hearings, and it received little or no consideration in debate. It amends section 7 of the act of May 21, 1920, providing appropriations for fortifications and other works of defense, and is general legislation.

It provides that any executive department, independent establishment, bureau or office, if funds are available and if it be determined by the official head that it is in the interest of the Government to place orders with any other department, establishment, bureau, or office for material, supplies, equipment, work, or service which such Federal agency is in a position or equipped to render, funds being available, such Federal agency may be requisitioned for the performance of such work or service. Upon demand, the requisitioned

agency may be paid by check in advance for the actual or estimated cost of the work or service, except that if such work or service can be more conveniently or more cheaply performed by a private agency, the work is to be let by competitive bids.

The Secretary of the Treasury is directed to set up working funds to carry out this provision, and interdepartmental bills rendered or requested for advance payment are not subject to audit or certification in advance of payment.

It must be obvious that no plan could be more carefully conceived to stimulate the interperformance of service or work by one department for another, with the widest range of discretion reposed not merely in the heads of executive departments but in 77 independent establishments and all the bureaus and offices within the departments.

Senator COPELAND. Mr. Chairman, did the witness quote from the appropriation bill?

Mr. EMERY. I am just summarizing the statute. I would be glad to include the statute in the record if you desire.

Senator WHITE. But did you quote from the economy act?

Mr. EMERY. I am not quoting from a provision in the economy act.

Senator COPELAND. I want to know if the first part of your statement quotes from that.

Mr. EMERY. I am not quoting from the act itself. It is a summary, but I will be glad to put in the act itself.

Senator CLARK. Will you put in the act itself?

Mr. EMERY. I will be glad to do so.

(Summary referred to is as follows:)

SUPPLEMENT VI, CODES OF LAWS OF THE UNITED STATES, TITLE 31, SECTION 686

Purchase or manufacture of stores or materials or performance of services by bureau or department for another bureau or department.—(a) Any executive department or independent establishment of the Government, or any bureau or office thereof, if funds are available therefor and if it is determined by the head of such executive department, establishment, bureau, or office to be in the interest of the Government so to do, may place orders with any other such department, establishment, bureau, or office for materials, supplies, equipment, work, or services, of any kind that such requisitioned Federal agency may be in a position to supply or equipped to render, and shall pay promptly by check to such Federal agency as may be requisitioned, upon its written request, either in advance or upon the furnishing or performance thereof, all or part of the estimated or actual cost thereof as determined by such department, establishment, bureau, or office as may be requisitioned; but proper adjustments on the basis of the actual cost of the materials, supplies, or equipment furnished, or work or services performed, paid for in advance, shall be made as may be agreed upon by the departments, establishments, bureaus, or offices concerned: *Provided, however,* That if such work or services can be as conveniently or more cheaply performed by private agencies such work shall be let by competitive bids to such private agencies. Bills rendered, or requests for advance payments made, pursuant to any such order, shall not be subject to audit or certification in advance of payment.

(b) Amounts paid as provided in subsection (a) shall be credited, (1) in the case of advance payments, to special working funds, or (2) in the case of payments other than advance payments, to the appropriations or funds against which charges have been made pursuant to any such order, except as hereinafter provided. The Secretary of the Treasury shall establish such special working funds as may be necessary to carry out the provisions of this subsection. Such amounts paid shall be available for expenditure in furnishing the materials, supplies, or equipment, or in performing the work or services, or for the objects specified in such appropriations or funds. Where materials, supplies, or equipment are furnished from stocks on hand, the amounts received in payment therefor shall be credited to appropriations or funds, as may be authorized by other law, or, if

not so authorized, so as to be available to replace the materials, supplies, or equipment, except that where the head of any such department, establishment, bureau, or office determines that such replacement is not necessary the amounts paid shall be covered into the Treasury as miscellaneous receipts.

(c) Orders placed as provided in subsection (a) shall be considered as obligations upon appropriations in the same manner as orders or contracts placed with private contractors. Advance payments credited to a special working fund shall remain available until expended. (As amended June 30, 1932, c. 314, sec. 601, 47 Stat. 417).

The requisitioned departments may be given advance payment upon "estimates" without audit. The requisitioning agency determines within its discretion not only when it is in the interest of the Government to have its work performed by another department, or whether it is in the interest of the Government to have the other department perform it, but judges whether it is either more convenient or cheaper to have the work done or the service performed by another department rather than by a private agency. Such legislation opens the gates to the widest expansion of interdepartmental production and service. It admits the private competitor only within the discretionary judgment of major and minor bureaucrats. Unless the policy be corrected, it offers the largest stimulus yet given for the performance of every form of work and service by Government agencies.

To illustrate the development of interdepartmental service—that is, the doing of work by one department of the Government for another, which, under the legislation I have called to your attention may be done in the discretion of the department without calling for bids—I beg to direct the committee's attention to two exhibits presented to the special committee of the House:

1. This is a table kindly supplied by the Navy Department which shows charges covering work done for other Government departments during the period beginning with the fiscal year 1919 and ending April 30, 1932. This shows that during that period the Navy Department did work amounting to \$142,364,755.64 for the Departments of Agriculture, Commerce, Interior, Labor, Post Office, Public Printer, Shipping Board, Public Buildings and Parks, Treasury, War, Panama Canal, Veterans' Bureau, and three-fourths of a million dollars of miscellaneous work for other departments. (House of Representatives committee exhibit, vol. 3).

I should like to submit these exhibits at this point for the record.

Senator CLARK. You may put them in.

Mr. EMERY. I will put them in. The first exhibit is a table of the Navy Department showing charges covering work done for other Government departments during the period beginning with the fiscal year 1919 and ending April 30, 1932.

(The table referred to is here made a part of the record, as follows:)

APPENDIX C

Charges covering work done for other Government departments by the Navy Department during the period beginning with the fiscal year 1919 and ending April 30, 1932

Fiscal year	Total	Agriculture	Commerce	Interior	Labor	Post Office	Public Printer	Shipping Board	Public Buildings and Public Parks	Treasury	War	Panama Canal	Veterans Bureau	Miscellaneous other Government departments
1919	\$62,871,207.10	\$5,346.64	\$558,827.51	\$772,093.90	\$30,535.01	\$3,692.37	\$80.50	\$16,377.408.69	\$163,382	\$64,380.40	\$43,453,289.15			\$348,301.36
1920	27,573,602.64	17,606.84	485,135.51	6,910.70	8,512.90	489.00	177.30	12,950,048.69	4,182.08	1,531,141.93	11,980,036.74			94,728.40
1921	18,017,522.94	11,970.02	262,035.91	15,646.41	10,315.45	409.81	1,264.94	4,555,290.50	2,515.48	1,100,966.30	3,194,240.76			7,652.61
1922	12,123,314.22	21,117.41	126,803.26	38,454.23	3,071.64	35,832.80	4,981.94	8,595,290.50	10,845.47	1,124,104.49	1,114,388.60			24,928.04
1923	10,440,342.28	14,511.65	216,192.66	22,612.07	12,489.83	171,437.57	3,424.35	8,821,938.75	845.51	1,126,742.13	1,114,388.60			59,396.08
1924	2,917,831.88	2,370.84	143,196.76	17,855.10	2,142.82	60,146.20	503.62	1,705,398.06	945.51	1,186,742.13	615,424.65			4,246.10
1925	1,770,633.62	1,984.08	74,149.15	9,570.73	1,815.45	34,330.26	203.75	824,284.30	1,614.29	2,117,622.73	558,217.24			5,057.58
1926	2,254,642.34	2,122.88	111,656.02	2,306.93	1,383.28	24,330.26	203.75	322,070.16	7,891.17	653,472.93	658,217.24			2,684.31
1927	2,925,485.58	2,054.33	100,301.75	2,412.40	1,336.08	34,330.26	203.75	385,611.58	4,288.15	783,194.36	904,104.32			53,565.50
1928	3,718,474.24	9,028.02	90,787.51	4,046.49	3,990.28	5,580.25	1,053.63	579,118.69	2,288.15	524,631.93	1,380,672.82			1,103.00
1929	1,853,552.70	5,852.23	235,653.00	4,205.50	3,990.28	5,746.23	5,708.27	2,693,128.67	2,359.15	715,398.41	1,380,672.82			3,701.29
1930	1,853,552.70	5,852.23	235,653.00	4,205.50	3,990.28	5,746.23	5,708.27	2,693,128.67	2,359.15	715,398.41	1,380,672.82			19,882.12
1931	1,853,552.70	5,852.23	235,653.00	4,205.50	3,990.28	5,746.23	5,708.27	2,693,128.67	2,359.15	715,398.41	1,380,672.82			13,728.59
1932	873,101.44	7,176.47	52,898.95	6,882.93	2,170.84	2,170.84	8,821.00	13,961.82	3,080.43	866,303.13	132,800.63			14,181.46
	142,364,755.64	114,120.80	2,688,803.39	140,311.37	79,664.52	450,645.44	36,201.10	54,620,777.96	39,712.30	12,711,441.26	70,538,031.93	99,796.89	124,319.17	750,928.51

¹ Credit.

2. A similar report made by the War Department giving a table of work done for other departments of the Government, which is also an exhibit from the files of the House committee (committee testimony, vol. 23, testimony of James A. Emery).

I would like to include this in your record, too.

Senator CLARK. That may be done.

(The testimony of James A. Emery, in vol. 23 of the House committee, is to be considered a part of this record.)

Statement showing value of work and supplies furnished other departments and bureaus of the Government by the War Department, during the fiscal years 1920 to 1929, inclusive

DIRECT EXPENDITURES FROM FUNDS ADVANCED TO THE WAR DEPARTMENT

	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929	Total
Navy Department..	\$169,416.56	\$2,476,241.02	\$783,327.05	\$672,631.96	\$1,119,465.53	\$1,071,303.12	\$1,766,768.09	\$1,270,808.19	\$1,585,947.57	\$1,758,250.09	\$12,673,880.40
Veterans' (Adminis- tration) Bureau)	None	4,570,000.00	4,339,297.69	3,516,140.30	5,638,829.88	2,706,599.62	3,103,000.12	2,833,221.63	2,848,891.57	2,753,593.16	32,410,239.97
Interior Depart- ment..	None	None	None	None	21,962.96	109,781.82	70,776.27	23,334.87	72,950.00	71,798.82	370,005.34
Commerce Depart- ment..	None	None	None	None	None	None	None	316.00	112.00	4,165.00	4,593.00
Agriculture Depart- ment..	None	None	None	207.11	10,130.02	8,596.33	3,444.22	334.31	None	None	22,713.90
Treasury Depart- ment..	None	None	None	None	6,714.28	None	None	15,532.34	4,983.17	3,456.79	30,686.68
Advisory Commit- tee for Aeronautics.	None	None	None	None	None	None	9,280.00	None	None	None	9,280.00
State Department..	None	None	None	None	None	None	None	47,647.00	50,934.00	373.90	98,955.65
Total.....	169,416.56	7,046,241.02	5,122,625.34	4,188,979.39	6,797,123.97	3,896,250.89	4,933,994.70	4,290,896.94	4,663,820.27	4,591,637.85	45,620,955.93

REIMBURSEMENTS TO WAR DEPARTMENT SUBSEQUENT TO FURNISHING OF SUPPLIES AND SERVICES

	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929	Total
Agriculture Depart- ment.....	\$9,122,511.21	\$91,721.44	\$30,897.85	\$21,841.53	\$9,441.00	\$17,853.86	\$8,300.94	\$13,102.00	\$6,548.00	\$8,857.97	\$80,301,165.80
Commerce Depart- ment.....	17,561.60	6,005.72	7,676.63	3,704.18	3,715.44	1,474.61	1,930.90	11,109.85	29,413.51	18,993.31	101,665.75
Interior Depart- ment.....	117,336.98	62,270.40	31,881.32	82,403.48	42,163.31	27,731.28	3,522.01	4,268.61	4,805.02	2,654.49	379,098.90
Department of Jus- tice.....	4,403.85	2,702.33	6,145.20	3,773.80	2,243.77	3,004.07	1,676.76	1,503.98	7,195.36	6,539.98	38,880.10
Labor Department..	13,321.84	27,092.89	23,719.33	7,004.98	24,094.38	3,643.93	618,855.86	898.23	276.55	8,304.26	109,950.47
Navy Department..	4,526,233.43	4,745,693.43	994,532.90	539,419.73	50,000.00	617,853.81	618,872.69	678,715.27	1,645,046.12	577,015.41	15,445,289.18
Panama Canal.....	37,819.60	142,350.61	15,251.54	10,160.52	16,848.98	11,886.85	1,378.73	4,619.62	4,619.62	6,524.26	261,074.96
Post Office Depart- ment.....	137,742.55	159,400.31	9,533.95	324,787.71	74,987.87	16,552.47	14,260.09	11,006.51	62,874.95	185,014.02	984,480.43
State Department..	108,297.67	12,967.34	15,312.80	6,710.22	30,392.11	313,927.16	32,064.47	35,098.51	32,385.22	58,573.68	614,029.38
Treasury Depart- ment.....	107,143.63	1,019,003.38	207,465.02	65,282.80	50,466.27	31,507.26	31,411.41	25.36	3.98	315.72	168,205.84
Veterans' Adminis- tration (formerly Veterans' Bureau)	None	None	51,659.97	220,814.62	35,404.97	2,120,183.91	132,076.32	153,563.76	81,792.25	86,264.14	2,887,759.94
Total.....	14,328,579.03	6,254,506.05	1,423,615.00	1,284,938.53	795,852.69	3,171,941.01	861,539.26	981,230.23	2,006,896.20	1,133,063.37	32,242,696.70

Senator CLARK. You may proceed.

Mr. EMERY. The competition of Federal agencies with private manufacturers is both direct and indirect.

Direct: (a) By production in which the department submits an "estimate" in competition with the responsible bid of a private producer; (b) by the sale of Government-produced or purchased goods under circumstances which limit or substantially prevent competition by private producers, as, for example, the sale of addressed— including stamped—envelops and wrappers by the Postal Department, the sale of sporting firearms, arsenal produced, or discarded military weapons and ammunition, both produced for the Government account; (c) by the maintenance of competitive service, as in the production and sale of power, light, or transportation.

Indirect competition, by public production for the Government account of articles otherwise purchasable from private producers but for which they are not permitted to bid, as, for example: (a) 50 percent of naval vessels and their main engines, armor, and armament authorized under section 1 of the act of February 13, 1929; (b) through the practice of enlarging interdepartmental service and production as a substitute for private production and service hitherto employed. For example, exclusive printing and binding through the Government Printing Plant for all Government requirements.

In reference to the above we could, by numerous witnesses, present the experience of particular manufacturers affected by specific competition through Government agencies operating upon their own business. For illustration, we offer a specific example in a typical industrial State—Massachusetts—where a compilation was made through the Associated Industries of that Commonwealth to show the number and variety of manufacturers affected:

Thus, plants at Taunton, Springfield, Roxbury, New Bedford, Gloucester, Boston, Walton, Andover, Chertley, Uxbridge, Newton, Brookfield, Cambridge, Worcester, and Attleboro report continuing experience from Government competition in the manufacture of the following products:

Aluminum, bronze, monel and steel castings for marine parts, paints, varnish, cements, shellac and waxes, rubber products, awnings, atomizers, canvas work, coils, Diesel engine parts, flags, radio equipment, sails, hammers, mail bags, fuses and torpedos, envelopes and printing, ink, satchels, straps and leather ties, cordage, and engineering work. Boston, the committee will recognize, ranks with Liverpool as a world wool center. Woolen cloth manufacturers at Methuen point out that the specifications for Army uniform cloth may be conformed to only by the use of Australian wool, which naturally affects the market for American wool growers.

In many instances, the form of permissible competition with the Government department is neither fair to the competing private producer nor just to the taxpayer. It is not fair to the private producer because he is required to make a responsible bid under bond, and, subject to penalty, against an "estimate", which is a hypothetical determination of probable production cost by the competing Government establishment. The "estimate" is not predicated upon those elements included within the private bid and recognized in any standard system of accounting. The Government carries no risk of enterprise. Capital losses are covered by capital

appropriations. Underestimates are met by deficiency appropriations. The Government estimate carries no insurance, pays neither taxes nor interest, and only in exceptional instances recognizes depreciation, amortization, and obsolescence.

The following statement by General Peirce, former Acting Chief of Ordnance, as to the necessity of including the major part of these elements in the military overhead of arsenals in order to make a fair comparison of costs between Government and private establishments (Hearing Subcommittee on Yards and Docks, House committee, on Nov. 28, 1922, p. 2157, Cong. Doc. 140, 1st sess., 67th cong.):

Military overhead at the six manufacturing arsenals of the Ordnance Department, as computed on January 25, 1916, is as follows:

	Percent
Frankfort Arsenal.....	12
Rock Island Arsenal.....	13.77
Springfield Armory.....	16.15
Watertown Arsenal.....	18.66
Watervliet Arsenal.....	21.51
Picatinny Arsenal.....	22.03

This overhead includes the following items: Interest on capital investment, depreciation, annual repairs, administrative cost, hypothetical insurance cost, pay and allowances of officers and enlisted men casually engaged on production distinct from duties pertaining to supply and instruction, and a War Department burden of 3.59 percent.

War Department burden includes the following:

1. Salaries, office of Secretary of War.
2. Salaries, Adjutant General's office.
3. Salaries, Inspector General's office.
4. Salaries, Judge Advocate General's office.
5. Salaries, Quartermaster General's office.
6. Salaries, Surgeon General's office.
7. Salaries, office Chief of Finance.
8. Pay, commutation, heat, and light allowances of officers on duty in the above-mentioned bureau offices.
9. Contingent expenses, War Department.
10. Stationery, War Department.
11. Postage to Postal Union countries.
12. Rent of buildings, War Department, excluding division M. A. and Bureau of Insular Affairs.
13. Maintenance of State, War, and Navy Departments Building, War Department share, 48 percent.
14. Interest at 3 percent on cost of State, War, and Navy Departments Building, War Department share 48 percent of total.
15. Proportion of expense of office of Chief of Ordnance which is chargeable to manufacturing operations.
16. Pay of retired officers and enlisted men of the Ordnance Department.

General PEIRCE. That is purely, you understand, a theoretical cost. It is not a cost that we use in our work.

Mr. KRAUS. In your bids?

General PEIRCE. No, sir.

From testimony of General Peirce, Acting Chief of Ordnance, before Subcommittee on Yards and Docks and Committee on Naval Affairs of the House of Representatives, November 28, 1922. (H. R. 10967):

The difference between "estimates" and bids is illustrated by a typical experience of the Post Office Department with the Washington Navy Yard estimates and production of mail boxes, showing serious differences between such estimates and subsequent cost of production.

Comparisons of bids and estimates for letter-box equipment for Postal Service. (See letter of T. L. Degnan, purchasing agent,

Post Office Department, to Hon. F. Dickinson Letts, May 26, 1928, in Congressional Record, Feb. 5, 1929, p. 2887.)

Letter shows Rock Island Arsenal, responding to request of the Post Office Department, was willing to proceed only upon estimates, the Post Office Department to bear any difference between the estimate and actual cost of production. The following, from the letter, states experience of Post Office Department:

Previous experience with the Navy Department in accepting estimates proved very costly to this Department. In the fiscal year 1917 bids were requested for supplying no. 1 storage boxes. The Navy Department submitted an estimate of \$10.80 per box. A commercial concern quoted the next lowest price at \$12.80 per box. The contract was awarded to the Navy Department, and when the order was completed the additional cost on that one lot was \$1,927.20, which brought the cost of the box up to \$14.65.

On the second lot an additional cost of \$3,552.28 was charged the Department, which brought the price of the box to \$18.56.

During the fiscal year 1923 the Washington Navy Yard submitted an estimate for supplying letter-box equipment at the following prices:

	Each
100 no. 1 zinc boxes at.....	\$6.92
1,000 no. 1 brass boxes at.....	9.72
4,000 no. 1 steel boxes at.....	4.77
2,000 no. 2 steel boxes at.....	6.75
1,000 package boxes at.....	18.36
1,500 combination boxes at.....	21.775

The above prices were similar to those quoted by an outside concern. At the estimated prices the boxes listed above would have cost the Department \$94,014.50. Actually the Department paid \$128,876.75, or an advance of over 36 percent. The final costs per box were as follows:

	Each
No. 1 zinc.....	\$12.08
No. 1 brass.....	15.053
No. 1 steel.....	8.511
No. 2 steel.....	10.273
Package.....	20.746
Combination.....	24.849

We submit it is obvious that where "estimates" are not predicated upon the actual elements of cost, they deprive the private bidder of fair and open competition, making the very taxes through which he supports the establishment that competes with him a handicap in the obtaining of public business; and secondly, they are unfair to the general taxpayer because the actual cost of the operation of a public establishment is befogged and wherever actual costs of public operation are in excess of rejected private bids, Government cost is indefensibly increased.

This committee has available a vast body of systematically presented testimony and information gathered by the committee of the House. A bill originally drafted to deal with this subject (H. R. 6038, 73d Cong., 1st sess.) was the subject of extensive hearings before the Committee on Expenditures in the Executive Departments of the House, between February 21 and March 30, 1934. In response to inquiry from the chairman of that committee the various executive departments submitted comments and criticisms with respect to the measure. An examination of these, which is available in the committee print, discloses a general misunderstanding of the purpose of the bill, the nonexistence in many departments of any cost-accounting system, and prima facie proof of a lack of uniformity where it exists, or the absence of all those elements of cost which are found in commercial systems and the presence of which are essential to the information of Congress.

So far as there was constructive criticism, the pending bill gives evidence of its due consideration. It appears particularly to have met the suggestions of the Comptroller General of the United States. He pointed out an existing condition subject to abuse, which ought to be corrected, was the possibility of expending public funds for a given purpose in excess of express appropriations. He further pointed out the need of revelation to Congress of a property inventory resulting from the expenditure of funds provided, and further emphasized the necessity of providing a means of enforcing any plan which Congress should adopt. The pending bill meets all these requirements.

Several executive departments insisted that the cost of establishing and maintaining the cost-accounting system suggested would involve large expense. To this the Comptroller General, perhaps the best informed official of the Government on that subject, declared:

The expense incident to maintaining a complete cost-accounting system for the Government should not materially increase the expenditure now made for fiscal accounting, as it seems entirely feasible to operate a cost system in conjunction therewith and the present facilities and personnel should to a great extent and under proper administration, absorb the additional work involved (p. 270, House hearing, H. R. 6038).

He further declared his confident belief—

that through the operation of a proper cost-accounting system there will result economies and advantages that will many times outweigh the cost thereof.

Many of the departments, in discussing the question of administrative discretion in expenditure, overlook the fact that the Comptroller General of the United States, to whom is intrusted the supervising of a system, has been for 140 years the independent representative of the Congress for the purpose of enforcing, through his office, the limits which it places upon the expenditure of its appropriations. Other departments also have made elaborate protests against what they allege would be an interference with the successful operation of activities committed to their care. They overlook the fact that the limitations provided in section 1 of the bill, for example, while controlling expenditures, provide for exceptions to be specifically made by the Congress. This obviously refers to such exceptions as Congress, in its wisdom, sees fit to make in providing appropriations. Thus, for example, with respect to the Navy Department, the appropriation bill for its support is the proper medium through which to provide for such exceptions in the repair and maintenance of the armed fleets of the United States as, in the discretion of Congress, are deemed necessary. The pending measure provides the means of protecting those special operations which the Congress believes essential, while setting up the general uniform method of cost accounting required for its own information.

The experience of the Congress, with inadequate information as to the cost of the gigantic operations it authorizes, the lack of accurate data from which to draw sound conclusions with respect to the comparative cost of public and private operations, the utter lack of uniformity in the method of departmental accounting and the use of interdepartmental services and funds, all urge the necessity of what is here proposed. We can demonstrate to the limit of your indulgence not only innumerable and constantly multiplying forms of public competition with private enterprise, but we can evidence the unfair character of the competition in many instances.

Senator CLARK. In other words, if Congress chose to provide for having cruisers constructed in Government navy yards and to pay more for them than they might pay for the same service in private yards, the Congress would have the right to do it but the Congress would by this means have the facts before them.

Mr. EMERY. Yes, sir.

Senator WHITE. Right in that connection, I should like to say: I recall very definitely a few years ago of hearings before the Committee on Merchant Marine and Fisheries of the House, in which there was shown a wide discrepancy between the actual cost of building cruisers or battleships in navy yards and the estimated cost, and that discrepancy was staggering.

Senator COPELAND. And that has been brought out in reference to other departments.

Senator WHITE. But that was confined to the building of ships.

Mr. EMERY. In the testimony given before the Shannon committee you will find much of that, but I am trying to save your time.

Senator WHITE. The estimates of cost of building those ships bore no relation whatsoever to the actual cost.

Mr. EMERY. In conclusion, we therefore desire to emphasize that these many forms of operation and competition are multiplying, under statutory stimulation, and threaten continuous expansion. We therefore venture to direct your attention to certain fundamental considerations that underlie our protest in support of this measure:

1. Our Federal Government was conceived and fashioned to perform political and not economic functions. Neither originally nor traditionally, by nature or organization, is it fitted to engage in the conduct of manufacture or commerce save to maintain within its military establishments a nucleus for the production of war materials not commercially obtainable, for progressive study and experiment within the military art and suitable provision for the maintenance of its armed fleet.

In that connection I venture to call to your attention a statement which was made by the unanimous report of a committee of the House several years ago that went into this subject. There was pending before the Sixty-seventh Congress, in 1922, a bill known as the "Hull bill", which provided that the military establishments of the United States should be used for the manufacture of commercial requirements of the Government upon the requisition by the heads of departments. This was intended to maintain navy yards and arsenals as commercial factories for the benefit of the Government. The test as to whether they were available for that purpose was whether or not they had at any time in their history manufactured any commercial products. The House committee at the end of the hearings submitted a unanimous report in opposition. I take this paragraph from that report:

The committee declares as a result of its inquiry it is a wrong economic principle for the Government to go into the manufacturing business at the expense of the taxpayer. Furthermore the Government is not now and probably never will be organized for a manufacturing business which requires expert knowledge in that it has not the specific obligations, a knowledge that is gained only from years of actual manufacturing experience, but by unfair competition and an arbitrary system of accounting which only partially include the various items of expense entering into the production cost of an article.

2. It seems fundamental that those who support government by taxation should have a fair opportunity to supply its wants on reasonable terms. The agencies of a free Government were neither conceived nor established to compete with its citizens. Finally, every substitute of public for private enterprise diminishes the sources of governmental revenue and tends of necessity to increase the rate of taxation.

3. Any public agency competing with the private citizen save upon equal terms of actual cost is unfair to the private competitor, unjust to the general taxpayer and unworthy of the Government. Departmental estimates, competing with responsible private bids, are not predicated upon those recognized elements comprehended within any standard system of accounting. The Government meets no risk of enterprise. It carries no insurance. Capital losses are met by capital appropriations; underestimates by deficiency appropriations. No taxes are paid. Interest charges are ignored and only in exceptional instances is depreciation, amortization, or obsolescence recognized. Without such equivalent elements estimates opposed to responsible bids represent an unfair method of competition. The actual burden of the taxpayer is made a handicap in competing with the public servant.

4. To whatever extent private bids are rejected in competition with estimates actually ultimating in costs in excess of such bid, irremediable injury is done the rejected bidder and the cost of Government operation indefensibly increased.

5. Our national system of military defense rests upon a comparatively small Army and Navy, with official reliance upon our capacity to transform private industry into a necessary agency of defense. To the extent that private industry is not prepared by productive opportunity to equip itself to meet this high responsibility, its capacity to meet its obligation is proportionately lessened. On the other hand, to the extent that our military establishments are led into the performance of commercial functions for other departments, they are diverted from and rendered less capable of discharging their primary obligations.

6. The present tendency to enlarge the official discretion of executive departments, bureaus, and independent establishments to requisition the performance of production and services and advance capital therefor from one bureau or department to another will inevitably stimulate a larger competition between Federal agencies and the private citizen, at continually increasing cost. It is in effect a progressive step toward socializing industry at the expense of individual initiative and private enterprise which this Government was conceived to promote, protect, and perpetuate.

I thank you.

Senator CLARK (presiding). Mr. Emery, we will be glad to have you insert in the hearing the statutes to which you have referred.

(Thereupon Mr. Emery left the committee table.)

Senator CLARK (presiding). General Bash, do you have a statement to make on behalf of the War Department?

STATEMENT OF MAJ. GEN. L. H. BASH, QUARTERMASTER GENERAL,
WAR DEPARTMENT, WASHINGTON, D. C.

Major General BASH. Mr. Chairman, on behalf of the War Department the Secretary of War has designated General Schull, Assistant Chief of Ordnance, to present the argument of the War Department, and I think it would conserve the time of your committee to listen to General Schull primarily, and then let me supplement anything he feels I might say.

Senator CLARK (presiding). We will be very glad to hear General Schull.

STATEMENT OF BRIG. GEN. H. W. SCHULL, ASSISTANT CHIEF OF
ORDNANCE, WAR DEPARTMENT, WASHINGTON, D. C.

Brigadier General SCHULL. Mr. Chairman, I was designated by the Secretary of War to present what he has to say as to the bill S. 1, and I should like to read into the record a letter from the Secretary of War to Hon. John J. Cochran, House of Representatives, in connection with H. R. 200, which is practically an exact copy of S. 1. This letter is dated February 16, 1935, and is as follows:

DEAR MR. COCHRAN: Careful consideration has been given to the bill H. R. 200, Seventy-fourth Congress, first session, "to provide for the establishment and maintenance of a procedure for cost-accounting and cost-reporting for Federal agencies", which you transmitted to the War Department by letter dated January 23, 1935, requesting the views of this Department on the bill.

At the first session of the Seventy-third Congress a bill, H. R. 6038, Seventy-third Congress, first session, which is similar to the bill H. R. 200, was introduced. In response to your request, the views of this Department upon that bill were communicated to you by letter dated January 31, 1934.

The bill H. R. 200 if enacted into law would have the following effects:

1. To require the War Department to pay more from appropriated funds for supplies which can be produced at its own manufacturing establishments.

2. To place these establishments in direct competition with commercial concerns for furnishing such supplies but on a basis which is very unfavorable to the former and will result in seriously curtailing the activities of such establishments and perhaps force some to close entirely.

3. To nullify the provisions of section 5a of the National Defense Act (which authorizes The Assistant Secretary of War to cause to be manufactured or produced at the Government arsenals or Government-owned factories of the United States all such supplies or articles needed by the War Department as said arsenals or Government-owned factories are capable of manufacturing or producing upon an economical basis) and thereby impair the efficiency of these establishments from the viewpoint of national defense.

4. To deprive the War Department of its administrative function of prescribing and supervising methods of cost-accounting within its establishments and vest this authority with the Comptroller General.

5. To increase the overhead expenses of the War Department without promoting its effectiveness.

With reference to the first of these effects the actual cost to the War Department of supplies manufactured at its arsenals or manufacturing establishments is reckoned entirely upon actual expenditures from appropriated funds.

Senator WHITE. Does that mean that in those two instances neither interest nor depreciation, nor similar items of that sort, are taken into account? You figure only the actual cash that you pay out immediately from the appropriation, I take it.

Brigadier General SCHULL. The estimates upon which appropriations are based do not include interest or taxes.

Senator WHITE. Or insurance.

Brigadier General SCHULL. No.

Senator WHITE. Nor any of the items which a private concern must necessarily take into account.

Brigadier General SCHULL. When you say "any of the items" you cover overhead, do you?

Senator WHITE. I mean items of that character.

Senator CLARK. For instance, you do not set up depreciation, do you?

Brigadier General SCHULL. No. Of course, depreciation is actually taken care of in the total expenditures because from time to time procurement of machinery to replace worn out machines is made from our regular annual appropriations.

Senator CLARK. That means that you are simply proceeding by dead reckoning, doesn't it? You simply figure that you have expended so much money.

Brigadier General SCHULL. No; we have a very complete system of cost-accounting. At the arsenals we have a very complete system. Every single penny of appropriated funds is taken care of there, and anyone can inspect the records and see where the money goes. All these statements to the effect that we have no cost-accounting system are incorrect.

Senator COPELAND. How often do estimates actually cover cost of production?

Brigadier General SCHULL. An estimate covers every order done at an arsenal.

Senator COPELAND. The previous witness called attention to the fact that the ultimate cost very frequently was far in excess of the estimate made.

Brigadier General SCHULL. Well, that is generally a very inaccurate statement.

Senator COPELAND. We have deficiency bills quite often I notice.

Mr. EHRLICH. In connection with that, the only time we went over the estimate of cost was when Congress changed to the 40-hour week, which increased our cost of labor considerably, but for the last few years we have kept well within our estimates in each case.

Brigadier General SCHULL. You are speaking there of the Ordnance Department of the Army?

Mr. EHRLICH. Yes. We have kept within the amounts appropriated in each case, but when they changed to the 40-hour week, that increased the labor cost 20 percent, and caused some deficiency.

Senator WHITE. You say the adoption of the 40-hour week increased your estimates by 20 percent?

Mr. EHRLICH. Increased the labor cost by 20 percent.

Brigadier General SCHULL. Because the estimates were made on the basis of a 48-hour week.

Senator WHITE. What percentage of cost was made up by labor cost?

Brigadier General SCHULL. Do you mean as a general thing?

Senator WHITE. Yes.

Brigadier General SCHULL. About 50 to 60 percent is labor—it varies but that is the average—and 40 percent is materials.

Senator CLARK (presiding). All right. You may proceed.

Brigadier General SCHULL. I continue reading from the letter:

The allotment of funds made to a Government manufacturing establishment for the production of a quantity of specific supplies for the War Department is based upon an estimate furnished by the establishment which includes only anticipated expenditures from appropriated funds to be allotted for the order. This estimate is comparable to a bid submitted by a commercial company. Under the bill H. R. 200 this estimate must be increased by including in it items of administration and other expenses for which no expenditures against the allotment will actually be made and this estimate must then be considered as a bid in competition with bids of commercial companies for the award of a contract. Under such circumstances there is little room for doubt that in many instances commercial companies will be able to submit bids below those of the Government establishments and in consequence the Government will be required to pay more for such supplies than would be the case under present conditions.

Senator COPELAND. I do not think I understood that statement.

Brigadier General SCHULL. If the provisions of this bill were placed in full force and effect and the Government had to include insurance, taxes, and various other items which it does not now include in the appropriated cost, if those had to be included in the estimates in competition with private enterprise, private enterprise might bid under the total of the Government estimate, and then the Government would be paying private enterprise for items which it does not include now. Furthermore, the Government has to keep these arsenals in operation anyway, so you would be paying twice. You cannot close your arsenals even though you should give a large part of the business to private enterprise. You must have them stand by and must be prepared to do manufacturing and development work of all kinds.

Senator CLARK. If the Government should specify that the work will be done in Government arsenals, all right; but Congress has the right to know what it costs.

Brigadier General SCHULL. An annual report has been submitted for many years giving an itemized list showing the cost of all articles made at arsenals, and it is available at all times.

Mr. EHRLICH. Legislation as shown in Revised Statute 1665, of April 7, 1794, requires the submission of that information, and it has been submitted since that time.

Senator CLARK. But that simply includes the actual outlay of money. It does not take into consideration the ultimate cost to the Government in the way of cutting any taxpayers out of the business, and does not take into consideration the elements to be considered in the case of any private enterprise. It is simply your actual expenditures.

Brigadier General SCHULL. Just the appropriation cost of the articles manufactured at arsenals.

Senator WHITE. Did you state there if you were obliged to figure interest, depreciation, insurance, and similar items that private industry has to take into consideration, that they could make a price below your cost?

Brigadier General SCHULL. Well, I think the private manufacturer could probably in some cases, and in some cases possibly he could not. In any event the bill requires that we publish all these elements of cost; and if we did so, a private bidder would use the Government costs by paying a small fee for getting a copy of the estimate. He

could then bid under the Government cost and would be awarded the business. Then we would not be saving these items of special overhead at all, but would be paying them to the contractor, if he got the business; and the next time he could push his prices higher.

Senator CLARK. Why should the Government wish to remain in competition with private business when it can be furnished as cheaply by private business?

Brigadier General SCHULL. Speaking for the Ordnance Department, the arsenals are not in competition. I should say that 99 percent of the work done by the Ordnance establishments does not compete with private business at all. This work is in the production and development of war munitions for which there is no commercial equivalent. It does not compete with private business.

Senator WHITE. Well, we do not get the money for running the War Department out of the War Department. We do not get money for running the Government out of the War Department, certainly. We have to go to these private citizens, to these private business men, and ask that they pay taxes to keep the governmental organization going, and it is becoming something of a problem.

Brigadier General SCHULL. I doubt very much if we could ever carry on our development and research work, and our manufacturing program of ordnance material, through private manufacturers with the set-up we have in this country.

Senator COPELAND. We are hardly facing the main problem when we discuss the Ordnance Department.

Brigadier General SCHULL. Hardly.

Senator COPELAND. The view expressed was that that is a department where there is no competition to speak of.

Brigadier General SCHULL. I think in terms of the Ordnance Department quite naturally, as I have been connected with it for many years.

Senator CLARK. You may proceed.

Brigadier General SCHULL. I continue reading from the letter:

The pro rata share of overhead expenses of the War Department connected with any purchase must be paid from appropriated funds, regardless of whether the supplies are manufactured at a Government establishment or purchased from a commercial company.

In the matter of competition between the Government establishments and commercial companies it is desired to point out that certain items to be considered as a part of cost are unfair to Government establishments. This is especially true in view of the fact that there must be considered as part of cost, such items as sick and annual leave plus a theoretical estimated cost to private industry of such items as insurance, compensation to employees for accidents and diseases arising out of industrial employment, taxes, licenses, performance bonds, and penalties. Aside from this and the expense which would be imposed on the Government in the maintenance, direction, and policing of the system, the bill would place the Government in an unfair position in comparing its costs with those of private bidders. The cost of purchases by the Government in the market does not begin or end with the signing of a contract. The cost of preparing plans and specifications, advertising, purchasing, supervision, disbursing, accounting, and auditing would have to be added to the cost of purchases from private bidders in order to make such costs comparable with the cost of Government manufacture according to the accounting principles contained in the bill. Since the bill does not require the addition of such costs to private bids the latter would have a decided advantage.

Section 5a of the National Defense Act provides the following:

"* * * He (The Assistant Secretary of War) shall cause to be manufactured or produced at the Government arsenals or Government-owned factories of the

United States all such supplies or articles needed by the War Department as said arsenals or Government-owned factories are capable of manufacturing or producing upon an economical basis. * * *

The intent of this act was to assist The Assistant Secretary of War in the use to the greatest advantage of existing facilities and personnel in the manufacture of material for other branches of the War Department and other executive departments.

Senator CLARK. What do you understand to be "on an economical basis" in that act generally?

Brigadier General SCHULL. I would say that as far as "economical" is concerned, that would be so far as appropriation costs of the article are concerned. I think they are used in that way. The most economical basis would naturally mean that requiring the least expenditure of appropriated funds.

Senator CLARK. Just as a mere matter of the expenditure, without figuring in any elements of interest on capital invested or any other elements which a private concern would necessarily have to figure.

Brigadier General SCHULL. Well, I don't know about interest on capital. I don't think that is at all universally considered as an item of cost. Most cost-accounting systems I do not believe include that.

Senator CLARK. Certainly the matter of return on the amount of money invested is an element of cost of an article produced, isn't it?

Brigadier General SCHULL. There is a lot of difference of opinion on it. I am not a cost accountant but have read a lot of books on it recently, and have heard many persons speak about it, and many do not consider it.

In answer to this question I would like to quote from Dr. Sanders' book on Commercial Accounting, page 115. Dr. Sanders is professor of accounting, graduate school of business administration, Harvard University:

For the most part the question of the inclusion of this charge has in practice been answered in the negative; speaking generally the great manufacturing concerns of the country, with the most able accounting advice at their disposal, have not included a charge for interest on invested capital; and of some 550 firms which answered the questionnaire sent out by the National Association of Cost Accountants, about eighty percent objected to the inclusion of interest.

This illustrates the general accepted commercial practice.

Senator CLARK. We will say that a man has a plant in which \$10,000,000 are invested, and it may be that he is on the same footing as the man with \$10,000, as to the cost of producing goods.

Brigadier General SCHULL. I should like to add in connection with insurance, obsolescence and administrative costs, which are referred to here; the Ordnance Department and other agencies, I think, do actually include that in our price list of standard articles, in the total price of standard articles. We include the War Department burden and the arsenal burden in addition to the actual overhead of the arsenal. When any article produced at an arsenal is passed on to other than an Executive department the total cost is paid, which includes the War Department burden and the arsenal burden, and that includes insurance, interest on investment, and all such items referred to.

Senator CLARK. You may go ahead.

Brigadier General SCHULL. I continue reading from the letter:

The Bureau of the Budget in its memorandum dated November 9, 1921, addressed to all executive departments, provided for the manufacture of material for the various executive departments by War Department field agencies. The effects of the proposed legislation would nullify all action heretofore taken to provide work at Government arsenals and navy yards, which work tends to maintain a nucleus of trained personnel, which with the limited appropriations normally available would not be possible of accomplishment.

All War Department manufacturing establishments are maintained for the purpose of providing material, supplies, and equipment for the national defense. The United States has invested funds for this purpose. This investment should not remain idle but should be used to the greatest advantage to the United States. This can only be accomplished by using those facilities to produce such material as can be manufactured on an economical basis and also to maintain a nucleus of trained personnel for ready expansion in case of a national emergency. Such use should be determined by The Assistant Secretary of War as now provided for by law. Under the bill the extent of the manufacturing activities at a Government establishment at any time will depend upon its ability to compete with private enterprise irrespective of the mission required of the establishment in time of emergency.

The bill H. R. 200 provides in section 1 that "the Comptroller General of the United States shall prescribe forms, systems, and procedure for cost keeping and cost reporting by such Federal agency", and in section 7 that "the Comptroller General of the United States is hereby authorized and directed, after the enactment of this act, to make the provisions thereof operative. To that end the Comptroller General of the United States shall promulgate such reasonable rules and regulations as may be necessary."

Any system of cost accounting used by an executive department should be prescribed and supervised by the responsible executive authority and not by the auditing authority. The forms of accounts to be prescribed by the auditing authority should be restricted to those of a fidelity character, which must be submitted by accountable officers to the General Accounting Office for audit. Cost accounting, as distinguished from fidelity accounting, is purely an administrative problem, and the formulation of accounting procedures for the purpose of determining costs should not be delegated to the General Accounting Office, which, under the law, is responsible only with respect to accountability for proper disbursements and application of funds appropriated by the Congress. Many technical questions would arise with respect to the application of cost principles under the broad provisions of H. R. 200 and, therefore, the vesting of any responsibility in the General Accounting Office in connection with the installation or operation of the cost system would result in numerous conflicting opinions with a consequent impairment of efficiency.

Under the present appropriation system, the responsibility for the economical expenditure of appropriated money rests with the head of the department concerned. In carrying out that responsibility the character of the data required by the head of the department, and the method by which such data are to be produced, should be prescribed by the head of that department. Good administration requires that authority for prescribing cost-accounting procedures and the responsibility for results in connection therewith be not divided. As previously indicated, the responsibility of the General Accounting Office should be restricted solely to fidelity accounting involving the proper application of appropriated funds, and that cost accounting, which is purely an administrative problem, should not in any way be connected therewith.

If the bill were enacted into law, it would affect all military posts and establishments and require the installation of an elaborate system of cost reporting, including all items usually found in modern systems of industrial cost accounting.

With the exception of manufacturing operations at War Department manufacturing plants, the cost-reporting system usually employed at the average military post or station is designed principally for fiscal purposes and could not be made to meet the requirements of this proposed legislation unless it be completely revised. A change of this nature will require specially qualified personnel to carry it into effect and operate it.

Senator COPELAND. The Secretary of War does not agree with the Comptroller General as regards the availability of existing agencies to carry on this cost accounting without a material increase in overhead, does he?

Brigadier General SCHULL. The arsenals have the necessary personnel, of course. They have complete cost-accounting systems now. So far as they are concerned, it would involve a lot of extra expense, but the agencies are all capable of carrying it on in any form desired. In fact, our cost-accounting system, with the exception of these two particular overheads we have been talking about, already includes everything. We have everything that is necessary.

This is the statement which Comptroller General McCarl made last year before the House committee when it was considering a similar bill:

There are many other practical difficulties in the application of the theory of charging interest on invested capital. * * * And the difficulties encountered commercially would be multiplied many times in Government accounting.

Senator WHITE. Notwithstanding that observation, he has reached a different conclusion, hasn't he, finally, in regard to it?

Brigadier General SCHULL. I heard Mr. Emery say so.

Senator WHITE. I judge so from what Mr. Emery stated.

Brigadier General SCHULL. I know of no official statement from the Comptroller General to that effect.

Senator Clark. You may go ahead.

Brigadier General SCHULL. I continue reading:

At present the civilian personnel at posts is so limited that it is necessary to rely for the most part on enlisted men. Experience has shown that such personnel does not have the qualifications of accountants. If such a cost-reporting system is established, as proposed in this bill, it will be absolutely necessary to secure funds for additional personnel.

The bill places an additional burden upon each department by requiring that all reports shall be public records and available for inspection and that copies thereof may be had upon application and payment of a suitable fee. This will require the preparation for sale of our appropriations without any definite indication as to whether any copies will be sold. The funds derived from such sale would probably go to "Miscellaneous receipts" and the expense of publication of these reports is an added burden to the operation of the department without any return to the department and only a partial return to the Government, depending entirely upon the number of copies sold. The various items pertaining to the War Department alone are so numerous that the cost of publishing reports would add up to a considerable sum out of all proportion to the value to which these reports would be placed.

Senator CLARK. In that very testimony before the House Committee Comptroller General McCarl did unqualifiedly endorse that bill, didn't he?

Brigadier General SCHULL. Yes, sir; subject to certain amendments.

Senator CLARK. You may go ahead.

Brigadier General SCHULL. I continue quoting from the letter:

In this connection, attention is invited to the fact that Government factory costs are now used as a "yardstick" to determine reasonable charges by commercial concerns. If such costs are made available to commercial concerns, they would know in advance what the Government anticipates will be the cost on any article in question and submit bids accordingly. This would be particularly true in an emergency and would make ineffective the advantage the Government should have at such a time.

Senator COPELAND. Would that be a calamity?

Brigadier General SCHULL. It would raise the cost of your articles. That would be the calamity, everything would go up in price and you would be in their power.

Senator WHITE. To follow out that principle would lead you into Government activity in every line of human endeavor.

Brigadier General SCHULL. I am only referring, of course, to Ordnance materials, to articles of a noncommercial nature, which represent the vast majority of what we produce. In fact, we do not make anything of a commercial nature in these arsenals.

Senator COPELAND. Pardon me for suggesting this, but did the Secretary of War choose this witness particularly because he was so vitally interested and was conversant with ordnance, which is really hardly a fair example of what we have in mind in these hearings?

Brigadier General SCHULL. I was only notified as I left the office yesterday afternoon that I was to come before the committee.

Senator COPELAND. Well, I will say that the Secretary sent a good witness.

Senator WHITE. I assume of course that the Secretary approves the substance of this letter.

Brigadier General SCHULL. Yes; it is signed by the Secretary of War.

Senator WHITE. But could you tell us who actually prepared the letter, so that if the committee so desired we may call him later?

Brigadier General SCHULL. I do not know who prepared it, but it is based upon letters from all of the supply departments. The Assistant Secretary of War received those letters, copies of which I believe we have here today, and this is an abstract or compilation from the reports submitted by all departments.

Senator WHITE. I did not know but what the committee at some time might want to examine the person who is really responsible for the preparation of the letter.

Senator CLARK. I think that would be very desirable.

Brigadier General SCHULL. We can find that out for you.

Senator CLARK (presiding). You may continue.

Brigadier General SCHULL. I continue reading from the letter:

In summing up it is the opinion of this Department that the bill would considerably increase the expense of cost accounting and cost reporting in the War Department and that such a system as is contemplated is not necessary for the satisfactory operation of the War Department establishments. The Department is also of the opinion that the bill places Government manufacturing establishments upon an unfair competitive basis with commercial companies and is likely to seriously affect the operation of these establishments and their future usefulness in time of emergency.

It is strongly recommended that this bill be not favorably considered.

Sincerely yours,

GEO. H. DERN, *Secretary of War.*

Senator COPELAND. Mr. Chairman, might I ask a question right there?

Senator CLARK (presiding). Certainly.

Senator COPELAND. The previous witness laid stress on the fact that one department of the Government is doing work for other departments of the Government, interdepartmental work. Are there various activities in the War Department which are carried on by reason of requests of other departments of the Government?

Brigadier General SCHULL. We manufacture things for the Navy Department, and the Post Office Department, and for the Coast and Geodetic Survey; we have made some things for them from time to time, always on estimates submitted, however.

Senator COPELAND. So far as you know, Why are those requests made of the War Department to do those things? Why are they not submitted to private concerns?

Brigadier General SCHULL. So far as the Navy Department is concerned, they are always war materials that we manufacture for them.

Senator COPELAND. Ordnance?

Brigadier General SCHULL. Yes.

Senator COPELAND. We always get back to that point, don't we?

Brigadier General SCHULL. Such things as fuses are made for the Navy Department and are not made outside at all.

Senator COPELAND. Do you make post-office boxes?

Brigadier General SCHULL. Not for 10 years, so far as I know.

Senator COPELAND. Why did the War Department abandon that particular activity?

Brigadier General SCHULL. Well, I suppose it was due to the fact that there may have been, to a certain extent, competition with private industry.

Senator COPELAND. Is there the further reason that it costs the Post Office Department more than it would have to pay for the same materials elsewhere?

Brigadier General SCHULL. I do not think so far as the Rock Island Arsenal is concerned the estimates were ever exceeded. I am not familiar with the record in that case.

Senator COPELAND. And you are not familiar with that matter about other ordnance establishments.

Brigadier General SCHULL. The only place that ever manufactured those post-office boxes was the Rock Island Arsenal, I mean in the Ordnance Department.

Senator COPELAND. And then it was abandoned for some reason. The question in my mind is, why did the Post Office Department cease purchasing boxes from the Army.

Brigadier General SCHULL. As I understand it they were not included in the list of agencies to receive proposals on those items any more. And we are not soliciting or looking for anything except ordnance material. We do not care to manufacture anything else except ordnance material.

Senator COPELAND. Well, I suppose the Post Office Department can answer that question.

Senator CLARK. Yes. We will have a representative from the Post Office Department. Have you anything else to present, General Schull?

Brigadier General SCHULL. No, sir.

(Thereupon Brigadier General Schull left the committee table.)

Senator CLARK (presiding). General Bash, do you now desire to make a statement?

STATEMENT OF MAJ. GEN. L. H. BASH, QUARTERMASTER GENERAL, WAR DEPARTMENT, WASHINGTON, D. C.

Major General BASH. I will try to be very brief, Mr. Chairman, and not overburden your record with too much detail. I have an interest though in the Quartermaster Corps, and particularly in one activity of the Quartermaster Corps that has been subjected to considerable sniping in the last few years and which we have to defend from time to time, in our judgment very properly. That is the Quartermaster Depot at Philadelphia, practically the only manufacturing plant that the Quartermaster Corps has. We do have a small

manufacturing plant, making noncommercial articles such as harness and saddlery and things of that kind at Jeffersonville, Ind., which is outside of Louisville, but it is so small that it is out of the picture.

Our main factory is at Philadelphia. It was established on the recommendation of George Washington shortly after the Revolutionary War and has been in production ever since.

Senator COPELAND. We are not following out all of his recommendations, however.

Major General BASH. No; we are not. And some theories of government have changed since George Washington's time, and probably for various good reasons. However, you may have a very exaggerated idea from what this committee has been hearing this morning as to the importance of the competition with private industry. Most of the arguments I have listened to have been on an economic basis, the question of dollars and cents.

I frankly admit to the committee that so far as I am concerned that question of dollars and cents has very little bearing on the complaint of which I am about to speak. The main ground on which we defend to the best of our ability, the Philadelphia depot, is national defense. It is true that the Quartermaster Corps of the War Department believes in public competition even though some of our articles are manufactured at Philadelphia. Most of our purchases are made through public competition, by the opening of bids received in compliance with law.

There is a small percentage, between 10 and 15 percent, of certain specialized items of a uniform kind, that we have found it an advantage to manufacture at Philadelphia in small quantities from time to time. These items we manufacture are principally coats, breeches, a few overcoats, a few mesquitobars, and some tentage. There is a list of them which appears in previous hearings and which could be made a part of your record if you desire.

The reason why we maintain that place for national defense is that we feel, as a result of our experience both in the World War and previously, it is necessary for us to have a yardstick. Unless we know from actual experience gained in the manufacture of small quantities of various articles what the cost is we would never know what a fair and square bid from a commercial concern would be. As the case is now, whenever we invite bids each bidder knows that we know what a fair price would be, and he governs himself accordingly. That is the main argument and to me a vital argument for the maintenance of the Philadelphia plant.

The other thing is this: It is not fair to compare our prices, I don't care whether they run a little bit higher or a little bit lower as the figures show, than what they could be made outside for, because our people at Philadelphia are employed under civil-service requirements. They are given their annual leave as required. They are paid a fair living wage. The fact that we have such an extensive list of applications for employment goes to prove that our working conditions for American labor in Philadelphia are infinitely superior to those outside.

Our costs are based on those fair living conditions. It is unnecessary to state that when private manufacturers submit bids neither the Congress nor ourselves have any control over what goes into those bids, what items make up the bids, nor what are the living conditions

of their employees. So that from my standpoint I think our one little manufacturing plant at Philadelphia is extremely important. The costs are familiar to this committee and are set forth in the hearings before the Committee on Expenditures in the Executive Departments, Seventy-third Congress, second session, H. R. 6038. There is no need of my quoting them.

One more thing and then I am done: The Quartermaster Corps has an extremely elaborate system of cost accounting. No one need say anything different. To my mind it reflects all the items which properly enter into any such system. It includes what it should include for a Government department. It does not include either taxes or insurance, and in my opinion properly so. It is sufficient however for us, and so far as I know in recent years we have done no manufacturing for other Government departments. It is sufficient for our purposes, to accurately reflect the expenditures made from appropriated funds. I think the cost-accounting system which was drawn up with a great deal of care, and which goes into a great deal of detail, has been polished up and refined and improved from time to time, where it would be difficult for any outside agency no matter how highly qualified to improve it for our purpose or for other purposes so far as giving information to the Congress from time to time when asked for is concerned.

Senator CLARK. You have one system of cost accounting in the Quartermaster Corps, and another in the Ordnance Department, and another in various other branches of the Government.

Major General BASH. The system in the Quartermaster Corps is not identical with that in the Ordnance Department although based thereon and coordinated with it. In the case of the Ordnance Department they have been largely manufacturers of munitions and articles which are not in competition with civilian industry, whereas our cost accounting mainly applies to this one depot at Philadelphia and is maintained largely as I say, for a yardstick to enable us to determine the justice and honesty of the bids we receive.

I won't take up your time further. I should like in that connection to leave with the committee reporter a statement as to just what we do at the Philadelphia plant. I won't read it.

Senator CLARK (presiding). That may be made a part of the record.

(The paper entitled "Considerations affecting the manufacturing at the Philadelphia depot" is here made a part of the record, as follows:)

CONSIDERATIONS AFFECTING THE MANUFACTURING PLANT AT THE PHILADELPHIA DEPOT

The National Defense Act, in section 5a, recognized the necessity for the operation of Government-owned plants and prescribed as one of the duties of the Assistant Secretary of War that

"He shall cause to be manufactured or produced at the Government arsenals or Government-owned factories of the United States, all such supplies or articles needed by the War Department as said arsenals or Government-owned factories are capable of manufacturing or producing on an economical basis."

The factory at the Philadelphia Depot is operated under the authority of this provision of the law. This factory is an outgrowth of the Schuylkill Arsenal, Philadelphia, which was first authorized by an act of Congress, dated April 2, 1794, and was moved to its present site, Twenty-first and Johnston Streets, during the World War, when the war expansion of its activities became so great that it could no longer be accommodated at the Schuylkill Arsenal.

The necessity for the operation of the plant at Philadelphia cannot be too strongly emphasized. It is of first importance that the War Department be prepared to meet sudden demands for expansion in the event of an emergency. To be compelled to provide for such an expansion entirely dependent upon commercial contractors will place a handicap on meeting initial requirements so essential at the beginning of any emergency. With this plant available, there will be no delay incident to advertising, awarding, and execution of formal contracts. The time factor of prompt supply is most vital at the outbreak of any emergency.

Of major importance, also, is the necessity of having the nucleus of a trained force to meet large expansions and render assistance to commercial concerns in the manufacture of Government commodities. This is a part of the program of war preparedness now being planned by those Departments of the Government charged with responsibility for national defense.

Experimental and development work must be carried on continuously in order to keep abreast of the progress of other countries and to give our Army the most suitable equipment for its mission.

A soldier cannot be trained until he is transported, fed, clothed, and equipped. The first three requirements are functions of the Quartermaster Corps. Clothing the individual soldier is the primary function of the Philadelphia depot. To perform this mission, the operation of the clothing factory is a prime necessity. With the factory operating and on "M day" immediately expanded to its full capacity, the maximum quantity of clothing it could deliver, while helping considerably, would not come near meeting the total requirements of the Army. The bulk of these requirements must be met by textile and clothing manufacturers all over the country. This would require that the hundreds of inspectors and civilian production managers that manufacture the cloth and clothing, who would suddenly be assigned to this unfamiliar duty, must have somewhere to go for a rapid course in the interpretation of Army specifications and where they can see the practical application of our specifications in actual operation. Such a place is provided at the Philadelphia factory. Without this factory, all producers would be more or less in the dark with orders for the production of clothing with which they were unfamiliar. This would result in a great delay in clothing the Army, which would in turn delay military training and hold up to that extent mobilization of the Army for the emergency.

In the event of an emergency, the present force of the factory, which is merely a nucleus for the expansion which would take place, would be so trained and developed as to render valuable assistance to commercial concerns in the manufacture of Government commodities and be an important factor in the program of war preparedness required by law. The Quartermaster General's specific procurement plans for war require a vast number of inspectors for the manufacture and acceptance (or rejection) of items of clothing during a major emergency. This factory is the only place where such inspectors can be efficiently selected and trained. To abandon our manufacturing, therefore, would promote unsatisfactory deliveries in such emergency when satisfactory ones will be manifestly imperative.

To be prepared to carry out the mission assigned the Quartermaster Corps in time of an emergency, it is essential that this factory be maintained in time of peace.

At the Philadelphia factory facilities are provided for establishing allowances of materials entering into the manufacture of articles of clothing and equipage, which are used as the governing factor in the issue of materials to commercial manufacturers. These allowances are carefully and accurately determined by experts and have proven invaluable in the past, particularly in assisting the Contract Adjustment Board and Claims Board in the settlement of contracts and adjustment of claims in connection with the manufacture of clothing and equipage after the World War.

The factory constitutes a yardstick to measure minimum costs which become the governing factor in making awards to commercial contractors. The value of this was clearly demonstrated during the past war when the costs established at the Philadelphia Depot factory were used as a basis in setting the price to be paid to contractors. As a result, there was less profiteering on these articles than on other commodities on which no similar control or comparison was available. This was only made possible by the knowledge obtained by actual operation of the Philadelphia factory for a number of years.

With this active manufacturing plant the depot is in a position to determine proper substitutions of materials, whereby large surplus stocks on hand after the war have been used to good advantage rather than disposed of by sale at a loss.

It also enables the Quartermaster Corps by actual manufacture to determine improvements and changes in manufacture and materials to the best interests of the Government.

Preparation of standard samples of experimental work is conducted from time to time for the benefit of the service in developing better and more efficient equipment.

The key to efficient procurement is inspection, including: Knowledge of what we want (specifications); knowledge of how we want it (manufacturing processes to a definite end); and in knowing for certain whether or not we are getting what we contract for in the first place (expert inspection of deliveries). The textile industry is beginning to realize that our inspection force is becoming more and more efficient. This is reflected in several ways: First, in the quality of goods received; second, in the trend toward fewer and fewer contracts being awarded to brokers; and, in general, an improvement in mutual confidence and understanding between the Government and the textile industry.

The civilian clothing industry and the uniform clothing industry are two different industries. The former is large and highly organized. The latter consists of extremely few manufacturers of material responsibility and a number of smaller ones. Should this depot cease to manufacture clothing, it is highly probable that one of these manufacturers would, within a short time, dominate the field. The result, so far as the interests of the United States are concerned, are obvious. In short, it is difficult to see that the Army can be satisfactorily and economically uniformed without this plant, which has been developed as an absolute necessity.

All the employees of the factory are citizens of the United States and many are ex-service men and mothers, widows, and children of ex-service men. All work performed is done on a Government reservation under the very best sanitary conditions and under direct supervision of officials of the Army, and in accordance with the laws concerning hours of labor and scale of wages. None of the work is performed off the Government premises, as is frequently the case with commercial concerns who give out their finishing operations to be done in the homes of the sewers, often under unfavorable conditions.

Since the establishment of the Civilian Conservation Corps, the value of the factory at the Philadelphia Depot has been repeatedly demonstrated. The authorizations for the establishment of this corps, initially and as extended from time to time, have been received so short a time before enrollments were to begin that the time allowed for obtaining the clothing for the men enrolled has been so short that without this factory the enrollments could not have proceeded at the rate desired by the administration.

To procure the garments needed in the market, it becomes necessary to prepare invitations for bids, distribute them through the mails, allow a period of 30 days before opening bids, make the awards and draw contracts, all of which processes consume a period of 40 to 45 days from the time the requirement is known before the contractor can begin his manufacturing processes. When the manufacturing is done at the depot, this entire period of time is saved, as production can start there immediately upon receipt of information concerning the requirement. In connection with the equipping of the Civilian Conservation Corps, the Philadelphia factory has been of inestimable value in producing clothing before commercial contractors could get into production.

The assistance rendered by the factory to commercial concerns in connection with the procurement for the Civilian Conservation Corps is indicated in a few illustrations, as follows:

Early in the preparation and assembling of clothing and equipment for the Civilian Conservation Corps enrollees, a contract for 90,000 flannel shirts was awarded a local contractor, with specific requirements for delivery. The periods for partial deliveries from this contractor passed without shirts being furnished. An investigation developed that it was an utter impossibility for the contractor to make the deliveries required. Personnel from the factory solicited known shirt manufacturers in and around Philadelphia to come to the assistance of the contractor concerned. A number of shirt factories were given the unfinished shirts, and, by constant encouragement and help given them by our personnel, were enabled to complete the shirts for the Civilian Conservation Corps without serious delay.

Contracts for woolen trousers in large quantities were awarded contractors in the late summer of 1934, deliveries on which were seriously hampered and delayed by the far-flung textile strike inaugurated in September. To partially meet the demands of the Civilian Conservation Corps for these trousers, the factory was

given authorizations aggregating 94,000 pairs of trousers on September the 23rd, all of which were manufactured and delivered by November 9, 1934, enabling requisitions to be filled until the contractors could resume work after settlement of the strike. During the Civilian Conservation Corps rush a contractor defaulted in deliveries, and, in order to meet urgent requisitions, it was necessary for the depot factory to take over the manufacture of 30,000 barrack bags.

Shirt manufacturers were unable to produce garments from the standard allowances of cloth, and the personnel of the depot factory instructed them so that the difficulties were overcome.

Several manufacturers of shirts were unable to cut the material so that they would properly assemble as to shades. They appealed to the depot factory for assistance, which was rendered, and one manufacturer sent his entire supervisory force to the depot factory for purpose of instruction.

These illustrations indicate the value of personnel that could not be trained except by actually engaging in manufacturing processes.

Following is an extract from report of annual inspection, fiscal year 1933, rendered to the Inspector General by Col. W. L. Reed, Inspector General's Department, dated November 23, 1934:

"9. *Manufacturing plant.*—(a) This division has been busily engaged during the fiscal year in manufacturing or altering an enormous amount of clothing manufacturing tentage for the Civilian Conservation Corps needs (see exhibit D), and in manufacturing clothing and equipment in replenishing Regular Army stock (see exhibit E).

"(b) In several cases where commercial contractors were unable to comply with terms of delivery on various articles, due to strikes, labor difficulties, or other causes, this division undertook and carried to a successful completion these contracts.

"(c) Great economy to the Government was effected by altering for the C. C. C. enormous stocks of clothing which probably would not otherwise have been used or issued.

"(d) Among the outstanding accomplishments of this division was the expansion of the tent department so that production was increased 100 percent and permitted the manufacture of 200 pyramidal tents per day. This expansion made possible the filling of all C. C. C. requisitions without delay and a prompt replenishment of Regular Army stock.

"(e) Another accomplishment worthy of note is the development of an improved khaki cotton shirt (coat style) and flannel shirt (coat style) for enlisted men of the Regular Army.

"(f) During the textile strike when commercial production was threatened, this division manufactured 94,000 pairs of wool trousers for the C. C. C. in order to assure deliveries on requisitions as required. A similar delivery of 20,000 serge and elastique uniforms manufactured by this division enabled a prompt delivery of these uniforms which would have been otherwise delayed."

"19. *Conclusions.*—

"(e) That the manufacturing division is deserving of commendation for the efficient performance of its many branches. Through its efficiently conducted administration, great economy to the Government was effected and enormous supplies for use by the C. C. C. and replenishment of Regular Army stock was accomplished (see par. 9)."

The factory is required, frequently, to use substitute materials to the best interest of the Department, a condition which is not favorably accepted by commercial contractors. On several occasions contractors have returned materials to the depot for the reason that they were not of commercial lengths. These were later used in depot manufacture.

The factory acts as a manufacturing laboratory for determining the suitability of patterns, styles, manufacturing methods, improvements, interpretations of specifications, approval of samples, etc., all of which are available for the advice of contractors and have a decided effect in keeping contractors' prices lower than they would otherwise be. The War Department is charged with expending appropriations made by Congress on an economical basis. It is emphasized that such cannot be determined by an item-for-item comparison of unit costs in Government-owned plants and those of commercial plants. Through the medium of Government-owned plants and the consequent flexibility of output by changes, as required, in manufacturing schedules, only those articles most urgently needed are carried into production. It is not infrequent that requirements determined

far in advance change. As an example, during the fiscal year 1931, the estimated requirements for special-measurement uniforms, based on prior consumption, were 93,000. On account of changed conditions, only 43,000 were actually required. At the Philadelphia factory only those uniforms actually required from time to time were produced. The funds not required for that project were diverted to other stock. If this item had been procured under contract, the entire amount would have been completed and delivered before it developed that the amount estimated would not be needed. The result would have been 50,000 uniforms placed in stock and not required. This is a typical case, showing that to be in a position to keep close control on stocks prevents "frozen" inventories, and to use funds when and where needed, when accomplished at a fair and reasonable price, gives greater economy in the end and enables the War Department to maintain its appropriated funds in a flexible condition, and permits their being used to the greatest advantages and on an economical and businesslike basis without waste.

There follows a statement showing comparative production cost of clothing manufactured at the Philadelphia depot and the cost of similar articles purchased commercially during the calendar year 1934:

	Manufactured at Philadelphia depot	Purchased on commercial contracts	Total
Breeches, cotton.....	\$0.8305	\$1.27 +0.1401	\$1.4101
Breeches, elastique.....	.8756	.89 + .165	1.055
Caps, white (including material).....	.27	.20 + .06	.25 *
Coats, cotton.....	1.5117	1.27 + .2056	1.4756
Coats, serge, 18 oz.....	2.2195	1.87 + .2545	2.1245
Coats, white, B. & C. (including material).....	1.33	1.02 + .18	1.20 *
Shirts, flannel.....	.5428	.345 + .137	.482
Trousers, white (including material).....	1.41	1.09 + .20	1.29 *
Trousers, wool.....	.9059	.6595 + .163	.8145
Overcoats (C. C. C.).....	.9702	.98 + .27	1.25 *

The figures above show the cost of manufacture only, except where it is indicated, as in the case of white clothing, that material is included.

In making this comparison, there has been added to the price bid by commercial contractors the cost of sponging cloth, the cost of inspection, cost of shipping material to the contractor's plant, the cost of sorting clippings (to be sold for salvage) returned from the contractor, the cost of preparing and furnishing patterns, layouts, etc. Due to the fact that the cost report for the calendar year 1934 is not quite finished, it has been necessary to estimate these additional costs in some cases. These cases have been indicated by asterisks.

The figures for the Philadelphia depot include the following costs:

Indirect labor: General labor, administrative employees.

General: Holiday and leave pay; power, heat, light, and water; operating supplies; repairs to machinery and equipment; royalties.

Miscellaneous: Stationery and office supplies, telephones, miscellaneous, maintenance of buildings, depreciation of machinery and equipment, labor-employees boiler room paid from repair funds.

In these costs are, of course, all of the items which have been added to the prices bid by commercial contractors.

There has not been added to the total commercial costs the overhead covering salaries, stationery, telephones, etc., for the Procurement Division of the depot. It is estimated this would be about 1 percent.

Attention is invited to the fact that the cost of manufacture at the Philadelphia Depot includes the pay of labor for holidays and periods of annual leave. This cost is 20 percent of the cost of manufacture at the depot. In other words, if this holiday and leave pay were not included, the cost of manufacture at the depot would be 20 percent less than the figures shown.

There is attached hereto a copy of the Regulations Governing Manufacturing Plants of the Quartermaster Corps, showing in detail the method of arriving at costs.

If the Government manufactured no articles of uniform or equipment, it would be necessary to maintain a designing and inspecting service, which would be purely an overhead charge and would have to be added to the price of articles manufactured under contract to arrive at the cost to the Government. In

fact, it would be extremely difficult, if not impossible, to maintain a satisfactory supervisory designing and inspection force of officers and assistants if the Government manufactured nothing whatever in that line. It has been charged that if the Government maintains a factory to manufacture all of the clothing required for the Army, there will develop a situation in which no one but the Government will be familiar with the manufacture of those things required by the Army, and that in time of war such a situation might well prove disastrous. The contrary condition exists, as this situation can only be met if the War Department is able to maintain a trained personnel capable of supervising designing and effectively inspecting articles produced under contract rather than by having to depend on the few additional contractors who will have gained some experience in the production of such articles through contract manufacture of all clothing required.

While the War Department fully recognizes the necessity for not engaging in activities that are in competition with legitimate commercial enterprises, it, at the same time, recognizes the danger that lies in giving serious consideration to legislation having for its purpose the curtailment or elimination of its essential activities, as by so doing it would be permitting the presumed necessities of the moment to mislead others into errors of judgment involving the national defense. Aid to commercial enterprises must not be given at the expense of the efficiency of the Military Establishment or by an increase in appropriations for its maintenance in time of peace. The War Department clothing factory at Philadelphia has justified itself over the period of its existence on the basis of economy, in the improved quality of the articles produced, and in the timely production of such articles so as to meet Army requirements.

The manufacturing plant at the Philadelphia Depot is a highly efficient organization and can only maintain that efficiency by continuous operation. In view of the large sum invested in the establishment of the factory and its many advantages to the Government, the War Department is justified in operating this plant as now equipped.

Because the discontinuance of the plant at Philadelphia would be uneconomical and unwise from the viewpoint of national defense in failing to maintain facilities needed in an emergency, and would destroy an important link in the plan of war preparedness and for providing the nucleus of a trained force, all of which is contrary to the public interest, the War Department opposes any change in the present authority for the operation of these plants.

Major General BASH. I should like also to insert in the record of your hearing, and also possibly subject to the imputation of coming from prejudiced sources, an extract from a complete report by the Inspector General of the Army of this same manufacturing plant, showing the economies that have been effected principally in altering the old style left-over uniforms from the war, so that they could be used by the Civilian Conservation Corps without the necessity of going out and purchasing new material.

Senator CLARK. That may go in our record.

(The paper entitled "Extract from Report of Annual Inspection, Philadelphia Quartermaster Depot," is here made a part of the record as follows:)

EXTRACTS FROM REPORT OF ANNUAL INSPECTION, PHILADELPHIA QUARTERMASTER DEPOT, PHILADELPHIA, PA., FISCAL YEAR 1933, RENDERED TO THE INSPECTOR GENERAL BY COL. W. L. REED, INSPECTOR GENERAL'S DEPARTMENT, DATED NOVEMBER 23, 1934

9. *Manufacturing plant.*—(a) This division has been busily engaged during the fiscal year in manufacturing or altering an enormous amount of clothing, manufacturing tentage for the Civilian Conservation Corps needs (see exhibit D), and in manufacturing clothing and equipment in replenishing Regular Army stock (see exhibit E).

(b) In several cases where commercial contractors were unable to comply with terms of delivery on various articles, due to strikes, labor difficulties or other causes, this division undertook and carried to a successful completion these contracts.

(c) Great economy to the Government was effected by altering for the Civilian Conservation Corps enormous stocks of clothing which probably would not otherwise have been used or issued.

(d) Among the outstanding accomplishments of this division was the expansion of the tent department so that production was increased 100 percent and permitted the manufacture of 200 pyramidal tents per day. This expansion made possible the filling of all Civilian Conservation Corps requisitions without delay and a prompt replenishment of Regular Army stock.

(e) Another accomplishment worthy of note is the development of an improved khaki cotton shirt (coat style) and flannel shirt (coat style) for enlisted men of the Regular Army.

(f) During the textile strike when commercial production was threatened, this division manufactured 94,000 pairs of wool trousers for the Civilian Conservation Corps in order to assure deliveries on requisitions as required. A similar delivery of 20,000 serge and elastic uniforms manufactured by this division enabled a prompt delivery of these uniforms which would have been otherwise delayed.

19. Conclusions.—

(e) That the manufacturing division is deserving of commendation for the efficient performance of its many branches. Through its efficiently conducted administration, great economy to the Government was effected and enormous supplies for use by the Civilian Conservation Corps and replenishment of Regular Army stock was accomplished (see paragraph 9).

Major General BASH. I should like also to invite your attention to the remarks of a converted opponent of the Philadelphia plant as set forth in the Congressional Record, present session, page 2400 of the Congressional Record for February 20, being a speech by Congressman Cochran, of Missouri. I do not think there is any necessity of reading this whole thing into your record.

That, Mr. Chairman, is in brief what I have to say about the feeling of the War Department with respect to this bill as it affects principally this manufacturing plant at Philadelphia. I have not gone into the very serious effect it would have in attempting to set up a cost-accounting system in all Army posts that we have, some of which are very extensive, expending a good many thousands of dollars of Government money in the course of a year. The officer in charge of each one of these posts is dependent upon soldier labor and to impose upon these overworked people a complicated cost-accounting system would just about swamp them.

Senator CLARK. Why do you assume that a cost-accounting system as described by the Comptroller General would be any more complicated than the cost-accounting system you have now?

Major General BASH. Because it would be gotten up by the Comptroller General. [Laughter.] That is the reason it would have that effect.

Senator CLARK. You assume that a War Department official is more competent to set up a cost-accounting system than an agent of Congress, do you?

Major General BASH. No; I do not think that, but I do think a War Department official who gets up a cost-accounting system, under The Assistant Secretary of War, charged with procurement under the law has a better knowledge of what is required and what is practicable than any outside agency could have. And furthermore, which I possibly did not make clear, our present cost-accounting system only applies to a few major activities such as the Philadelphia plant, and we do not attempt to extend it clear down the line.

That completes my story and I stick to it, too.

Senator CLARK. General Bash, we rather expect officials connected with the various bureaus of the Government, bureaucrats that this measure is designed to restrict, to have that doubt.

Major General BASH. No; I will not even allow the chairman of the committee to call me a bureaucrat. I am not. I am just as sympathetic and probably know more about general business conditions in the United States than most people because I come in contact with all these contractors every day of my life. They all come in to see me, and I know how hard up they are. At the same time they are getting a good break. Things are improving in my opinion, and I believe I am not prejudiced. In my opinion the War Department should not surrender this one little factory it has at Philadelphia, which is a very small depot in fact, and which as I say is a very valuable thing for us as a yardstick of construction.

Senator CLARK. I do not think that that by any means follows, that your depot at Philadelphia would be put out of business by reason of having a cost-accounting system. There are many forms of government activity that ought to be maintained even if it has to be maintained at a loss. But Congress ought to be in a position to know whether any governmental activity is actually being operated at a loss or not.

Major General BASH. We have that information now. All that the Congress has to do is by resolution or by request even of this committee, to call on the Secretary of War to give you the annual report.

Senator CLARK. If Congress considers it proper to maintain that depot at Philadelphia all it has to do is to say so. Even if they have information that it may be cheaper to buy from private factories the Congress still has the power to maintain that activity and give you the yard stick if it considers it necessary.

Major General BASH. Congress has the power, of course. No one knows better than a subordinate like myself the power of the Congress. At the same time I would be very derelict in my duty if I did not try to give this committee my impression of how such a bill would affect our duties.

Senator CLARK. We are glad to have your statement.

(Thereupon Major General Bash left the committee table.)

Senator CLARK. Two or three persons have handed to me statements in writing which they desire made a part of the record, and that will be done.

(The statements and a letter so submitted are here made a part of the record, as follows:)

UNITED STATES CHAMBER OF COMMERCE,
Washington, February 26, 1935.

COST ACCOUNTING PROCEDURE FOR FEDERAL AGENCIES

STATEMENT BEFORE THE SENATE COMMITTEE ON COMMERCE RELATING TO S. 1 WHICH WOULD PROVIDE FOR THE ESTABLISHMENT OF COST ACCOUNTING AND COST REPORTING FOR THOSE ACTIVITIES OF FEDERAL AGENCIES DIRECTLY IN COMPETITION WITH PRIVATE ENTERPRISE

The Chamber of Commerce of the United States favors the application of sound methods of cost-finding to the operations of Government agencies as contemplated in the bill S. 1, now before your committee. The chamber's advocacy of the principles embodied in this measure rests upon a declaration of its membership

that "there should be legislation requiring governmental agencies engaged in competition with private enterprise to use established cost-accounting methods under all circumstances in which they would be used in accordance with the established practices of private management."

SCOPE OF THE LEGISLATION

The bill S. 1 would operate to prevent Government agencies from expending appropriated funds for the purpose of manufacturing supplies and materials, or producing services, when such items are available from regular commercial sources at a lower cost than the total cost incurred for the purpose by the Government agency—except in cases where the agency submits a bid in competition with private bidders and in its bid includes every reasonable item of cost usually incurred by private bidders for the subject matter of competition. The bill further prescribes the fundamental accounting principles which shall be included in the methods of cost-finding to be adopted by Federal agencies. The bill also contains specific requirements concerning appropriate reports of costs which Federal agencies shall submit to Congress.

EFFECTS OF THE MEASURE

The Chamber of Commerce of the United States expresses the belief that passage of the measure under consideration will have far-reaching and beneficial results.

ENCOURAGES FAIR COMPETITION

This bill if enacted will tend to promote, on the part of the Government, methods of fair competition with private enterprise. As between private enterprises engaged in interstate commerce, section 5 of the Interstate Commerce Act makes acts of unfair competition unlawful. The promotion of fair methods of competition is the basic purpose of the National Industrial Recovery Act. Codes based on this act are now in effect throughout practically all fields of industry and commerce.

Resort to unfair methods of competition has long been recognized as being detrimental to the orderly development of industry and trade. Equality of opportunity exists only under conditions of fair competition.

If the elimination of unfair competitive practices is, as a matter of public policy, desirable among private producers, the same public policy makes it equally desirable that any circumstances which permit Government agencies to compete unfairly with private enterprises should be corrected. Fair play demands that Government enterprises should be on the same competitive basis as private enterprise where both meet on common ground. Where Government agencies sell products or perform services customarily considered to fall within the scope of private business operations, the Government enterprise should be subject to the same rules of competition that are specified for private enterprises.

Unfair competition of Government enterprises with private business has a wider scope, however, than that brought about by the direct competition in a common market of products and services arising from both sources. Large direct and indirect costs are being incurred by the Federal Government in activities which can be successfully performed by private enterprise. The Government is manufacturing for its own use articles which private enterprise is prepared to manufacture economically, and is undertaking construction projects of various kinds which can be adequately and economically handled by private firms. Extensive repairs to Government equipment is done to the exclusion of opportunities for the performance of such work by competent private enterprises. Business taken from private firms as a consequence of these and other Government activities restricts the development of business enterprises which ultimately must carry the load of supporting the Government through taxes.

FAIR-PRICING POLICIES

Data made available through accurate methods of cost-finding furnish a basis for determining efficiency and fair prices. The bill S. 1 would serve to give the same information to Government agencies both to enable them to maintain efficiency and to establish proper prices for products sold to the public or furnished to other Government agencies.

The practice of selling goods below cost for the purpose of adversely affecting competitors has been regarded generally as being detrimental to the welfare of the industry concerned as well as being contrary to the public interest.

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In many instances, however, price-cutting has its origin from ignorance regarding true costs. Either there is a lack of cost information because accounting records are nonexistent or existing accounting methods are inadequate insofar as they do not disclose essential data required for proper management of the enterprise. In private enterprise the disturbing effect upon business of all members of an industry is obvious.

Correction of unfair competitive conditions arising from such circumstances lies in each member of an industry intelligently informing himself concerning the elements of cost, whether apparent or concealed, whether current or deferred, which must be taken into account when ascertaining true costs. Over a period of 25 years or more, many industries have undertaken comprehensive educational programs to induce their members to inform themselves concerning costs of doing business. At least 225 industries have engaged in promoting understanding among their members of their actual costs.

DISCLOSE LOSSES INCURRED

With adequate cost-finding methods, such as provided by this bill, in effect, Government agencies can ascertain whether or not there are losses and the amounts of losses incurred. To the extent that such losses are eliminated or reduced, there will be relief from demands for appropriations from the Federal Treasury.

In the management of private business enterprises, the development of cost-finding methods has been recognized as being indispensable. Information made available through proper cost-accounting records has become, in the hands of management, an instrument for directing the many complex operations of a business. The facts disclosed by cost-accounting methods have pointed the way to eliminating wastes, increasing efficiency, and improving products and services. The management of Government agencies needs the same kind of information to be used for similar purposes.

ASCERTAINMENT OF TRUE COSTS

Enactment of this measure would furnish for the first time a basis for the ascertainment of true costs incurred by Federal agencies. The Government's industrial and commercial operations can be and are carried on without regard to the elements of profit or loss, which are unavoidable factors in private business. The Government can, and does, furnish the funds which are employed, largely from taxation, without requiring or expecting payment of interest, let alone dividends, out of the business. Public property used by the Government in business is free from any burden of Federal taxation and is removed from taxation by the State, county, and town in which it is situated. Allowances for depreciation are usually disregarded, on the theory that more funds will be forthcoming from the public treasury. Without charge to the business, supervision may be furnished by officials serving the Government in other connections, or by officers of the Army or the Navy. It is obvious, therefore, that in any field of business which the Government chooses to enter private business will be proportionately eliminated—not by reason of the relative merits of the two forms but because of the unfair advantages received by the former.

Three cost elements—taxes, insurance, and depreciation—are usually disregarded in present accounting methods of the Government. In many fields of industry these cost factors represent the critical segment of total operating costs.

SOUND SYSTEM OF BIDDING BY FEDERAL AGENCIES

Bidding on contracts for supplies or services, whether such bidding is by private enterprises or by Federal agencies, must rest on accurate knowledge of costs. Only by resting upon ascertained facts regarding true costs can any bid be considered to be fair to the public and to the bidder. The requirement in the bill under consideration that Federal agencies, when bidding in competition with private bidders, shall include all elements of cost usually incurred by the latter, is a desirable provision and conducive to promotion of fair competitive methods.

INFORMATION MADE AVAILABLE TO THE CONGRESS

Consolidated reports of the costs of conducting essential functions of the Government, where such functions are carried out by two or more departments or divisions, are not now available either to Congress or the public. Lack of

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such reports makes impossible accurate appraisals of the propriety and effectiveness of many important governmental activities.

If Congress is fully to discharge its function in the determination of policies regarding the maintenance and continuance of Government business activities; and if Congress is to give intelligent consideration to proposals to inject the Government into new business ventures, adequate information must be available. The bill makes provision for the preparation of such reports by Federal agencies for the information of Congress and the public.

COST OF INSTALLING AND MAINTAINING COST-FINDING PROCEDURE

Cost accounting procedure, as developed in private enterprises has justified itself from many angles. Such procedure need not be complicated nor involved; simple methods can be adequate. The expense of applying and operating adequate cost-finding procedure does not throw heavy financial burdens upon the user. Generally the savings gained outweigh the costs. In the absence of such results, industry would not have encouraged the extension of cost accounting to the extent which it has. Similar results may be expected to follow the development and use of proper cost-finding procedure by Government agencies.

SUMMARY

Private enterprise has found that the application of proper methods for ascertaining costs has had beneficial results. These methods should be extended to all commercial activities of the Federal Government in order that the public may receive the benefit. Congress should take immediate action, therefore, to require the development of cost finding methods in Government departments and agencies which engage in activities in competition with or in substitution for private enterprise. The establishment of such methods would make possible comparisons between public and private costs of production and of service. The resulting data which would be made available to the Congress would be invaluable in its consideration of activities and appropriations. The utilization of cost information in these connections would thus correspond to practices long in vogue in private business and indispensable for the welfare of private enterprise itself.

The membership of the Chamber of Commerce of the United States has endorsed the underlying principles contained in the bill, S. 1, now before the Committee on Commerce. Favorable action upon the measure is, therefore, recommended.

CHESTER LEASURE,

Representing the Chamber of Commerce of the United States.

STATEMENT OF LAUNDRY OWNERS NATIONAL ASSOCIATION OF THE UNITED STATES AND CANADA

The Laundry Owners National Association of the United States and Canada is one of the oldest trade associations in this country, with 2,700 laundry owners who do approximately 70 percent of the volume of business handled in this industry in the United States.

A summary of important data from the reports of the Bureau of the Census for the years 1929, 1931, and 1933, is as follows:

	1929	1931	1933
Total number of persons engaged in the laundry industry.....	225,448	217,138	192,562
Total wages paid.....	\$228,890,727	\$202,196,915	\$126,675,382
Total laundry sales.....	\$541,158,197	\$465,969,306	\$295,261,846
Decline in laundry sales since 1929 (percent).....		16	48

The laundry industry, generally speaking, has cooperated to the fullest extent with the President's Reemployment Agreement, and has increased wages and continued to employ as many people as has been consistent with their financial condition, due to the drastic decline in volume.

It will be noted that total wages and salaries to employees comprise about 50 percent of the total laundry expense. The laundry industry occupies a peculiar economic position because its customers are its own competitors.

We would refer this committee to House Report No. 1985, entitled "Government Competition with Private Enterprise", which contains a report of the special committee appointed to investigate Government competition with private enterprise pursuant to House Resolution 235. On pages 201 to 206, inclusive, in House Report No. 1985, is contained an outline of the brief presented by this Association to this special committee to investigate Government competition with private enterprise, sometimes known as the "Shannon Committee."

Information secured by this association shows that Government-operated laundries are located in 38 States, not only in Army posts, but at veterans' hospitals, training and air stations, yards, bases, barracks, soldiers' homes, marine hospitals, Federal penitentiaries, jails, reformatories, West Point, Coast Guard stations, and at a Federal Reserve bank. These Government laundries ignore major cost factors, do free work, secure compulsion business of civilian employees, and deny commercial laundries the equal privilege of solicitation, collection, and delivery, and make patronage of Government laundries compulsory with enlisted men and Government employees.

These measures are unfair because the taxpayers' money is being spent to operate laundries that are operated without taking into account the legitimate cost factors and elements of profit and loss. The net results of this competition for private laundries has been to take business away, to reduce net profit, force dismissal of employees, to reduce wages, to further increase idle equipment, and to reduce the ability of private laundries to pay taxes.

The laundry industries, like many industries, owns a great deal of equipment now idle, it is fully equipped to take care of the laundry needs of all departments of the Government efficiently and at reasonable cost. The elimination of Government-operated laundries would increase business for private laundries, and accordingly increase employment and the purchasing power of the people engaged in the laundry business. The laundry owner is placed in the ironical position of paying taxes to a Government that competes with his own business. These adverse effects on the private laundry business are bound to grow unless there is a positive curtailment in Government-operated laundries. It seems obvious, therefore, that the operation of Government laundries will cause a further loss to an industry already showing a severe decline, and that the volume of business done by private laundries will be reduced in the proportion to the business done in Government-operated plants.

We desire to urge the passage of this legislation providing for cost accounting and reporting by Federal agencies because it will emphasize to the Government that laundries operated by Federal agencies are being operated at a serious loss when major and legitimate cost factors, such as depreciation and other overhead expenses are taken into consideration. This legislation will supply Government officials and taxpayers with actual facts and cost information on the operation of Government laundries in comparison with private plants.

H. E. CONEY, Vice President.

WATERPOWER EQUIPMENT ASSOCIATION,
Philadelphia, Pa., February 25, 1935.

The Honorable BENNETT CLARK,
United States Senate, Washington, D. C.

DEAR SIR: The Waterpower Equipment Association favors the passage of the Clark-Shannon Senate bill no. 1 to protect private industry from unfair Government competition and specifically for the following reasons affecting directly various individual members of our association:

1. Five members of our association are recognized designers and builders of roller gates for installation on dams, these gates being used principally for the passage of flood water and the control of water levels. The various district engineer offices of the United States War Department have, in the past, purchased such roller gates, including in their inquiries only the general arrangement, drawings, and specifications. Within the past 6 months, the War Department has issued complete detailed drawings for such roller gates, alleging this action was in the interests of the Government to permit broader competition and hence the securing of lower prices. The gate builders of our association have maintained engineering and research organizations for the express purpose of carrying out such detailed designs and, in general, developing their products. The War Department, in their letter of November 6, 1934, addressed to our association, and discussing this subject states:

"The necessity for the preparation of preliminary plans and for checking the designs submitted by the contractor has required the Department to maintain an experienced engineering staff. This staff is sufficient in size to prepare the detailed designs without additional cost to the Government so that they will be completed in detail with the completion of the design of the remaining structures."

We have taken the position that the preparation of such detail designs constitutes an item of cost to the Government regardless of the size of their staff and that the cost of the preparation of such drawings should be included as a part of the cost of purchased machinery. It is unfair for any Government agency to compete against established machinery manufacturers by undertaking detail machine design and thereby open to competition against such machinery manufacturers those companies who have only manufacturing and fabricating facilities and who do not undertake to design and develop specific products.

2. Private industry invests time and money in the development of machinery with the expectation that their ingenuity and enterprise will result in profits and a favorable position against competitors. A Government agency who subsequently sends out complete detailed drawings for such machinery, is nullifying the efforts of enterprising companies and discouraging further investment in research and development work.

We feel that the Government should not invade the machinery business by issuing detailed designs unless it is for products peculiar to Government needs and which have not or cannot be developed by private industry.

Very truly yours,

O. V. KRUSE, President.

Senator CLARK (presiding). In view of the fact that the full committee meets here tomorrow this subcommittee will now be adjourned to meet again in this room at 10 o'clock Thursday morning, February 28, 1935.

(Whereupon, at 12 noon Tuesday, Feb. 26, 1935, the subcommittee adjourned to meet again Thursday, Feb. 28, 1935, at 10 a. m.)

REPORT OF THE SUBCOMMITTEE OF THE COMMITTEE ON COMMERCE, UNITED STATES SENATE, ON THE BILL (S. 1111) FOR THE ESTABLISHMENT OF A COMMISSION ON POST OFFICE DEPARTMENT COST ACCOUNTING AND COST REPORTING.

COST ACCOUNTING AND COST REPORTING FOR FEDERAL AGENCIES

THURSDAY, FEBRUARY 28, 1935

UNITED STATES SENATE,
SUBCOMMITTEE OF COMMITTEE ON COMMERCE,
Washington, D. C.

The subcommittee met, pursuant to adjournment, in the Commerce Committee room in the Capitol, at 10 a. m., Senator Bennett Champ Clark presiding.

Senator CLARK (presiding). The subcommittee will come to order. Mr. Slattery, will you please come forward and give your views, first giving your name and position to the reporter.

STATEMENT OF WILLIAM L. SLATTERY, COMPTROLLER OF THE POST OFFICE DEPARTMENT, WASHINGTON, D. C.

Mr. SLATTERY. My name is William L. Slattery. I am Comptroller of the Post Office Department.

Mr. Chairman, I am here this morning as Comptroller of the Post Office Department, but I am also here in my private capacity as a citizen. At the beginning I should like to correct some of the testimony which has been given here in regard to the letters which the Post Office Department has written. Very definitely we are not against cost accounting in the Government, in the Post Office Department. I think possibly in our institution we have more reason to desire cost accounting than perhaps any other Government department, for the simple reason that we charge for everything we do, and that charge makes us a business, and the charge must have some relation to the service we perform as the Post Office Department.

In regard to a specific bill like this, however, it seems to me that as I read the bill it has only one intent, and that is to prevent the Government from competing with private business on more or less business projects, and if that is true—

Senator CLARK. Of course, it can compete if the Congress authorizes it in a specific case. It restricts the authorities of the departments from going out and engaging in competition without specific authorization of Congress, and provides for furnishing to Congress the data on which the terms of the competition will be.

Mr. SLATTERY. On the basis of the terms of the competition, of course, no department of the Government can compete with private business.

Senator CLARK. Unless Congress authorizes it.

Mr. SLATTERY. Unless the Congress authorizes it; yes, sir.

Senator CLARK. That is entirely correct.

Mr. SLATTERY. It has occurred to me, as a matter of volunteered opinion, that if the desire of Congress were to prohibit competition of the Government with private business the easiest way to do it would be to prohibit it, because here in this bill you have perhaps set up cost accounting—

Senator CLARK. That by no means follows, Mr. Slattery. For instance, so far as I am concerned I am in favor of building a large proportion of the naval vessels of the Government in the United States navy yards, but I do think the Government ought to have a yardstick to figure out the basis of cost between private and Government costs, and that is provided in the bill.

Mr. SLATTERY. Yes; it may be that the Army and the Navy have a special problem, just as the Post Office does, but by and large you will have set up here a cost-accounting system but you have not provided for cost accountants which will be vital to this thing. You have placed the whole thing in the hands of the Comptroller General, and you direct him in lines 19 and 20 on page 4 to arrange the overhead expense, or arrange for the recording of it "in accordance with prevailing and generally accepted accounting practice in private industry."

Senator COPELAND. Is that not valuable for the sake of uniformity?

Mr. SLATTERY. Yes; it is, so long as you conduct it as a private industry, but you have a conflict in the object here. Instead of saying that, I should like to see the whole accounting set-up of a Government department go along with the accounting practice in private industry.

Frankly, I am not very much concerned about the cost-accounting features of this. I am more concerned with the Government proceeding in all its accounting procedures as private business does. When you bring in the items of insurance and depreciation you are making it almost impossible if you are going to regard the cost; you have practically prohibited the Government from doing anything that private business can do. When you take depreciation in the Post Office Department, for instance, you are going to take depreciation on a very grand building down at Twelfth and Pennsylvania Avenue that has no relation to the running of the Post Office. It is a grand Government structure, and if the Post Office were competing with private business we would probably have something like the warehouse over here in this part of the town.

Senator CLARK. The Post Office is competing with private business in many instances.

Mr. SLATTERY. The Post Office is competing with private business in many instances, that is true.

Senator COPELAND. The entire function might be so regarded.

Mr. SLATTERY. I think its basic function is rightly a Government monopoly on first-class mails.

I do not have anything particularly to tell the committee this morning except that the Post Office is very much interested in getting a proper system of its ordinary expenses down rather than a cost-accounting system, which can never be anything more than legislation, and they will always have to go according to the law, unless you give cost accountants the job and give them the same liberty that you have given the Comptroller General, that is, the right to make decisions. You see, in the field of cost accounting you are dealing with intangibles almost wholly. It is a matter of opinion.

Secondly, in the remarks that have been made here already in regard to depreciation and insurance, those two items, while they are items of cost, the cost features are not their prime function. They are to assure that the assets of the company are not paid out in dividends and earnings as much as they are to see that the cost of the article bears its full share. A company in order to get Government business could quite easily regulate its depreciation and its insurance, and get all the Government business there was, because the market is so large and the field is so large and there is no credit risk. Depreciation especially is not a hard and fast rule in cost accounting. A contractor could decide he would charge no depreciation in the business he got from the Government and put it all on his private business.

Senator CLARK. I understand, Mr. Slattery, that your principal objection to the bill is that it makes the matter subject to the regulation of the Comptroller General.

Mr. SLATTERY. Not at all. I do say this, however, that the Comptroller General always goes strictly in accordance with the law.

Senator CLARK. That is the reason I want it put in his hands, exactly.

Mr. SLATTERY. I am for it. I agree with what was put into the record here the other day from the Comptroller General as to the results of this bill, but I should like to see you also put into his hands a set-up that would give him cost accountants. What I am leading up to is the suggestion that the committee consider a new classification in the civil service under the professional and scientific category.

Senator CLARK. I think that suggestion might be very helpful, Mr. Slattery, and the committee would be very glad if you would put in writing any suggestions you have along that line, and we would be very glad to consider it when we take it up for consideration in the full committee and the subcommittee.

Mr. SLATTERY. In connection with the suggestion made by Senator Clark, I suggest a provision in the act to provide for cost accounting and cost reporting of Federal agencies as follows, that the professional and scientific service section of Public, No. 555, Seventieth Congress, H. R. 6518, approved May 28, 1928, be hereby amended so that the words "including cost accountants" be inserted in the first paragraph under the heading.

The first paragraph will then read as follows:

The professional and scientific service shall include all classes of positions the duties of which are to perform routine, advisory, administrative, or research work which is based upon the established principles of a profession or science and which requires professional, scientific, or technical training, equivalent to that represented by graduation from a college or university of recognized standing, including cost accounting.

I believe that the law should be amended so that cost accountants are specifically included in the professional and scientific grades and that the bill under consideration by your committee should especially provide for cost accountants in these grades.

Senator COPELAND. I should like to ask you a question, Mr. Slattery. I do not understand that you are opposing the bill.

Mr. SLATTERY. I am for the bill in principle.

Senator COPELAND. Have you definite suggestions to make about the modification of the bill?

Mr. SLATTERY. No. What I would say would be more in principle. As far as I understand you direct the Comptroller General to set up

his overhead expense in accordance with prevailing and generally accepted accounting practice in private industry. When you do that—

Senator CLARK. Are you referring to the provision on page 2, Mr. Slattery?

Mr. SLATTERY. The provision on page 4 of the bill. When you direct the Comptroller General, as you do direct him by that provision, to set up his "overhead expense in accordance with prevailing and generally accepted accounting practice in private industry", then you must give him some means of accomplishing that.

Senator COPELAND. Where is that provision?

Mr. SLATTERY. In lines 19 and 20, on page 4 of the bill.

Senator CLARK. You mean, Mr. Slattery, that it would be helpful to establish a particular classification in the Government service that would be at the disposal of the Comptroller General in setting up a cost-accounting system?

Mr. SLATTERY. Yes.

Senator CLARK. I think that is an excellent suggestion.

Mr. SLATTERY. I will go further than that. I think if you can get into the civil service a classification which recognizes accounting as a profession that you will do the biggest thing you can do for the Government service.

Senator CLARK. I think that is good as far as this is concerned. In drawing the bill we did not have any thought of keeping the Comptroller General from having the highest-class personnel he could have in setting up such an accounting system. I think your suggestion is a very excellent one, and it will be taken up for consideration by the committee.

Mr. SLATTERY. I am assuming that in establishing that classification in the civil service that the men who would come in, whoever they might be, would certainly be experienced in private industry.

Senator CLARK. I think that would be necessary.

Mr. SLATTERY. Otherwise it seems to me that the bill is all right. If it is the first step, which to my mind I think it should be, in a greatly needed improvement, why, I think it is fine.

Senator COPELAND. Would it not be wise to have the witness prepare the language of the provision he suggests?

Senator CLARK. We would be very glad if Mr. Slattery would prepare a suggested provision of that sort and let the committee have it.

Mr. SLATTERY. I shall be very glad to do so. I have nothing more to say, Mr. Chairman, unless you want to ask something about the Post Office Department.

Senator CLARK. No, sir. This bill is not designed for any particular department, and I say very frankly that there are certain governmental activities and certain departments which I think perhaps experience would suggest should be excepted from its operation.

Mr. SLATTERY. I have no doubt.

Senator CLARK. It is simply designed as a broad, general proposition.

Mr. SLATTERY. In all accounting you are dealing with the intangible features and the thing which did strike me is that you are restricting it more or less to those operations which are in competition with private business. I think if you would extend that to the

whole Government in its ordinary affairs it would be a big improvement.

Senator CLARK. I think perhaps that is true.

Mr. SLATTERY. Only an accountant will come in here and tell you that it is much better for the Government to proceed on money borrowed from the sale of bonds than it is to raise money by taxation to build long-term assets, for instance.

Senator CLARK. That is a matter of taxation rather than accounting.

Mr. SLATTERY. No; you raise the money by the sale of bonds, and amortize the investment, especially if it is a thing like a toll bridge such as the George Washington Bridge in New York. It is much cheaper to build that with borrowed money obtained from the sale of bonds than it is to raise the money to build it from taxation, and some accountant can prove it.

Senator COPELAND. You might never have to pay the bonds.

Mr. SLATTERY. You would amortize them with the money obtained from the charges made for crossing the bridge, and the accountant could prove that to you.

Senator CLARK. We thank you for your statement, Mr. Slattery. (Thereupon Mr. Slattery left the committee table.)

Senator CLARK. Mr. Babcock has an amendment he wishes to offer. We will be glad to have you do so at this time.

STATEMENT OF E. C. BABCOCK, PRESIDENT OF THE AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, 805 G STREET NW., WASHINGTON, D. C.

Mr. BABCOCK. Mr. Chairman, I suggest amendments to the bill (S. 1). On page 7, after section 6, to insert the following sections:

SEC. 7. All methods, procedures, reports, and other acts required of Federal agencies by this act shall also apply to all private contractors doing business with the Government or with any part of the Government of the United States, or with any corporation the majority of stock of which is owned by the United States Government. All sections of this act shall be equally applicable to such contractors, including the publication of records, data, and information concerning all factors covered by this act.

SEC. 8. All contracts entered into by a Federal agency or any corporation of which the United States owns the majority of the stock shall contain provisions requiring that the private contractor shall pay all persons employed on such manufacture, construction, or service not less than the prevailing rates of wages prescribed by the various trade unions in the various localities involved.

SEC. 9. Rates of wages paid by private contractors shall not be less than the prevailing rates of wages prescribed for the payment of governmental personnel engaged on similar work.

SEC. 10. All private contractors shall be required under the terms of such contracts to report to the governmental agency making the contract, the wages paid all employees and workers and hours of labor of such employees or workers engaged in the fulfillment of the contract.

Senator COPELAND. Does that tend to prevent the kick-back?

Mr. BABCOCK. It does; yes, sir. That is part of the purpose.

SEC. 11. Whenever a submission of bids is requested by a governmental agency the specifications shall include the submission of the wage scales in effect in the establishment making each bid, and all bids which specify wages not in accordance with this act shall be rejected.

And then change section 7, line 4, page 7, to section 12.

Senator COPELAND. I suggest that this proposed amendment be printed as a separate sheet for the benefit of the committee.

Senator CLARK. It will be so ordered.
Mr. BABCOCK. I have a statement which I should like to submit for the record.

Senator CLARK. The statement will appear in the record at this point.

(The statement submitted by Mr. Babcock is here printed in the record in full, as follows:)

STATEMENT SUBMITTED BY E. CLAUDE BABCOCK, PRESIDENT OF THE AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

Members of the Senate committee, gentlemen, this bill is clearly designed to make it extremely difficult if not impossible for the Government to engage in the manufacture of goods needed for its own establishment, even where the advantages of Government control of such manufactures are obvious. Its purpose is described by its proponents as to take the Government out of competition with private business, in order that private business may get more Government contracts.

Organized labor, as represented by the American Federation of Government Employees and its affiliated organizations in the American Federation of Labor, holds no brief against private business, but this is a question which directly affects the welfare of the Government and of a large number of Government employees. It is vital to them and to the whole body of organized labor.

The Government, contrary to the impression widely prevalent, operates a large number of manufacturing plants, turning out the goods the Government needs for the conduct of its business. I submit that it is wise and just that it should continue to operate them. The munitions committee, of which at least one member of this committee is also a member, has brought out some amazing disclosures of the activities of private business in connection with Government contracts for munitions, disclosures of such character as to raise grave questions as to the propriety or wisdom of permitting certain firms and corporations to undertake any work for the Government at all. These Government establishments have been set up not only because it is convenient for the Government to manufacture its own supplies, thus insuring adherence to its standards, but because in many instances the work can be done more efficiently, more cheaply and with a better product in the Government plants. Furthermore, it is highly desirable that the Government maintain and operate such plants, if for no other reason than to have a yardstick to measure the costs of operation outside. It will not be forgotten that Secretary of the Navy Josephus Daniels ran into difficulties with steel manufacturers some years ago, and was able to force them to make reasonable prices on Government work because the Government had plants capable of handling that work.

The munitions committee has brought out various instances of attempts on the part of private business interests to hamper Government plants, even to the extent of trying to induce Government officials to acts of sabotage against the Government. I mention these well-known instances merely in passing. After all, the American Federation of Government Employees has no objection to private employers getting business in competition with Government plants or otherwise, but it contends strongly that if private business is going to compete with Government plants, the competition must be real, the sort of competition the N. R. A. was designed to foster, and not the sort of competition the N. R. A. investigations have so often revealed.

In a word, the point of view of the federation is this: If private business can pay decent wages and turn out a comparable product, in competition with Government plants, by all means let it do so; but experience has shown on many occasions that private business pays lower wages than are paid in Government plants—often a substandard wage—or turns out an inferior product, or both. In short, private competition with the Government often rests on the sole advantage that private business pays wages that the Government cannot conscientiously pay and that business itself should be ashamed to pay.

The American Federation of Government Employees believes that private business must not be permitted to compete with Government plants on the basis of substandard wages and working conditions. If it seeks to compete with Government plants, let it give assurances that it will pay not only the prevailing wage in the locality where it is situated—which may be a substandard wage—but a wage scale comparable to those in Government plants doing similar work, if that

prevailing wage is too low. Ordinarily there would probably be no conflict since Government wages themselves are usually set by the prevailing wage.

Provisions should be written into the law that any private employer bidding in competition with Government plants for Government business must submit a report of wages paid and hours of labor in their establishments, and that the heads of departments and independent agencies, in awarding contracts, shall be held responsible for maintenance of the standards prevailing in government plants.

Without any desire to disparage private industry, this federation believes that under similar conditions, the Government can and will turn out better work in its plants, for less money than can be done by private employers, assuming, of course, that the administrative officers of the Government factories operate their plants honestly and efficiently. Unfortunately we have reason to believe that this is not always the fact. But where it is the fact, Government establishments can do jobs, and actually do them, at lower cost than private plants, even though they pay in general substantially higher wage scales and maintain better working conditions.

As this bill now stands it is clearly designed to hamper the Government and to promote the cause of private business. All the restrictions are placed on government, none on business. In the interest of fairness, justness, fair competition and sound labor standards, I submit the following amendments to the bill:

AMENDMENT TO S. 1

Page 7, after section 6, insert:

"Sec. 7. All methods, procedures, reports, and other acts required of Federal agencies by this act shall also apply to all private contractors doing business with the Government or with any part of the Government of the United States or with any Corporation the majority of stock of which is owned by the United States Government. All sections of this act shall be equally applicable to such contractors including the publication of records, data, and information concerning all factors covered by this act.

"Sec. 8. All contracts entered into by a Federal agency or any corporation of which the United States owns the majority of the stock shall contain provisions requiring that the private contractor shall pay all persons employed on such manufacture, construction, or service not less than the prevailing rates of wages prescribed by the various trade unions in the various localities involved.

"Sec. 9. Rates of wages paid by private contractors shall not be less than the prevailing rates of wages prescribed for the payment of governmental personnel engaged on similar work.

"Sec. 10. All private contractors shall be required under the terms of such contracts to report to the governmental agency making the contract, the wages paid all employees and workers and hours of labor of such employees or workers engaged in the fulfillment of the contract.

"Sec. 11. Whenever a submission of bids is requested by a governmental agency the specifications shall include the submission of the wage scales in effect in the establishment making each bid and all bids which specify wages not in accordance with this act shall be rejected."

Change section 7, line 4, page 7, to section 12.

Senator CLARK. Admiral Standley, the committee will now be glad to hear from you.

STATEMENT OF ADMIRAL WILLIAM H. STANDLEY, CHIEF OF NAVAL OPERATIONS, WASHINGTON, D. C.

Admiral STANDLEY. I am the Chief of Naval Operations, and charged by law with the operations of the fleet, and with plans for and preparation and readiness for its use in war. I notice that this bill purports "To provide for the establishment and maintenance of a procedure for cost accounting and cost reporting for Federal agencies." Section 1 of this bill is the one which, because of my responsibility, I am particularly concerned with this morning. There are other officers here who will discuss the cost accounting from the Navy point of view, but I am interested in section 1, because as it

reads at present it will make it impossible, in my opinion, for the Chief of Naval Operations to carry out his responsibilities in maintaining and operating the fleet in a state of readiness for war.

Senator COPELAND. Does that have to do largely with repairs?

Admiral STANDLEY. Entirely with repairs and upkeep.

Senator COPELAND. Could there be placed a limitation in the bill on the amount spent for repairs and you would be exempt from that?

Admiral STANDLEY. We have that limitation every year in the appropriation bill.

Senator COPELAND. How large is that limitation in the appropriation bill?

Admiral STANDLEY. It runs in the neighborhood of \$35,000,000 or \$40,000,000 for repairs to ships.

Senator COPELAND. And that is left to your disposal?

Admiral STANDLEY. That concerns directly the repairs to ships. It runs from \$35,000,000 to \$40,000,000 for the repair and upkeep of ships.

Senator COPELAND. Suppose there were an exemption made.

Senator CLARK. Admiral, if you will permit me to suggest, personally I should be glad to include an exemption. I believe it is not necessary under the terms of this bill because the language is "hereafter, except as may be specifically provided by Congress." The limitation in the appropriation bill, as you suggested, Admiral, would be sufficient authorization to proceed with repairs on that basis.

Admiral STANDLEY. I do not agree with you on the reading of that language, "except as may be specifically provided by Congress". Our appropriations do not specifically state the item or the ship on which it is to be spent. We get so much money for engineering repairs, we get so much money for C. and R., we get so much money for ordnance and the various other work on ships. In those items there is no specific ship stated.

Senator CLARK. Of course that would be a question of what the term "specifically" means, and so far as I am concerned I would have no objection to defining the term "specifically" to be such a lump-sum appropriation where it is specified that the Navy Department might have the disposition of the funds, of whatever the limitation might be, \$35,000,000 or \$40,000,000, exempt from the provisions of this act.

Admiral STANDLEY. There should be such a specific statement. I, as the responsible officer for national defense, am not willing to take a chance on somebody's interpretation of this "specifically." I want it stated in this bill what it means. If you want to exempt the Army and the Navy, then state it.

Senator CLARK. I do not propose to exempt the Army and the Navy, because it has been shown repeatedly that the Army and Navy have been engaged in all sorts of enterprises which have nothing to do with the national defense, and I would be perfectly willing to state that where Congress provides such a lump-sum appropriation as you have for a definite purpose such as ship repair it shall not be subject to the operation of this act. I am not willing that the Navy Department should be able to engage in all sorts of business and manufacturing, which they have done, and be exempt as to that from the provisions of this act.

Admiral STANDLEY. I am concerned in the appropriations that go into the upkeep and repair of our fleet.

Senator CLARK. Yes; I say that there is no dispute between you and the proponents of this measure so far as that is concerned.

Senator COPELAND. It seems to me you have that very exemption now by the terms of the appropriation act. With ship repairs and so forth, so far as the items involved in the \$35,000,000 or \$40,000,000, that you would have free hand as you have had in the past.

Senator CLARK. That would seem absolutely clear to me. The Comptroller General might have a contrary view of that matter. The view we take seems to me to be that of ordinary legislative practice.

Admiral STANDLEY. I am not willing to take a chance of having someone take the position that when a ship is foul I cannot dock her.

Senator CLARK. I agree with you.

Admiral STANDLEY. Of course the general exemption of the Army and Navy would cover the whole thing. As a matter of fact we are tied down by an appropriation bill anyhow. We are pretty much tied down by that. We are tied down in the expenditure of that money. It goes through the Bureau of the Budget, and it goes through the appropriations committees and then it goes to Congress and Congress authorizes it, and we are pretty much limited now as to what we can do about that, but at the same time I am interested right now in the question of operating the fleet, and I am not willing to take a chance of somebody interpreting that bill so I cannot repair my ships.

Senator COPELAND. I think the best thing would be for Admiral Standley to furnish to the committee the language he would suggest be incorporated in the bill.

Senator CLARK. Yes, we would be glad to have you do that, Admiral Standley. So far as the operation of the fleet is concerned there is no disposition on my part, and so far as I know on the part of the proponents of the measure, to interfere with the operation of the Navy. What we are concerned with and what we say is that we are against Government departments wandering off into all sorts of manufacturing enterprises. For instance, I had a schedule of the work which the Navy had done for other departments of the Government in years gone by and it reached staggering figures.

Admiral STANDLEY. Of course it is the policy that we never do that where there are commercial activities which can take care of that. It is a general policy that we do not engage in commercial enterprises.

Senator COPELAND. The Navy is unique in that regard then, is it not?

Admiral STANDLEY. I think you will find the policy of the Navy to be that we are not engaged in private enterprises where there are private commercial enterprises which can take care of that. That is the general rule.

Senator CLARK. I thought I had that schedule here, but find I do not have it with me. It was furnished to me the other day. It gave figures and facts showing services performed and articles furnished by the Navy Department to nearly every other department of the Government, such as the Post Office Department, the Bureau of Printing, and others.

Admiral STANDLEY. I think that is right where it is a question of Government enterprise, but that is not private enterprise.

Senator CLARK. Yes; furnished to Government departments, and frequently in competition with private enterprises.

Admiral STANDLEY. By the same token we feel that when we can do work for the Government departments cheaper, that it should be done. That under such circumstances the Government departments should do it.

Senator CLARK. That is what we are trying to find out, whether they can do it cheaper or not.

Senator COPELAND. Then as I understand, the admiral will furnish his suggestions to the committee.

Senator CLARK. We will be glad to have him do so.

Admiral STANDLEY. I think I can give you an exemption there, a wording of that, which will cover that which I am concerned with.

Senator CLARK. We will be glad to have you do that, Admiral.

Admiral STANDLEY. As I told you, I am not willing to accept your or anyone else's opinion that this would be interpreted any particular way. I want it perfectly definite that I cannot be interfered with in the repair of ships.

Senator CLARK. Yes. There is no disposition to do that.

Senator COPELAND. You mean the burnt child fears the fire.

Admiral STANDLEY. No question about that. We never learn by the experience of others. We have to be burned ourselves.

I think, sir, that is the extent of my remarks here. There are other officers present who will go into this cost accounting.

Senator CLARK. We will be glad to have you prepare such a suggestion as you think will cover your case.

(Admiral Standley left the committee table.)

Senator CLARK. We will next hear Captain Huntington of the Navy.

STATEMENT OF A. F. HUNTINGTON, CAPTAIN, SUPPLY CORPS, UNITED STATES NAVY, WASHINGTON, D. C.

Senator CLARK. Captain, will you give your name and your position.

Captain HUNTINGTON. A. F. Huntington, captain, Supply Corps, United States Navy.

Mr. Chairman and gentlemen of the committee, the Secretary of the Navy has designated me to appear here today with other officers of the Navy Department to place before you the views of the Navy Department on the bill, S. 1, now under consideration.

Before presenting a statement I would like, with your permission, to refer to certain statements affecting the Navy which were made last Tuesday. My only purpose in doing this is to clarify the record. It has been said that this measure does not prevent the Federal Government through its various departments from engaging in necessary work of production and services. With this view the Navy Department does not agree, for there are many in the Navy Department who have given careful study to this bill, and in every bureau, headquarters of the Marine Corps, and the Secretary's office of the Department there is unanimity that it will materially interfere with navy yards and other stations performing their necessary work of production and services.

In spite of what might have been said to the contrary, section 601 of the Economy Act approved June 30, 1932, providing for inter-departmental work, was enacted into law after extensive hearings as a part of the economy program.

Senator CLARK. Where were those hearings held?

Captain HUNTINGTON. I will bring that out, Senator. They were not held under the economy bill; but on a bill, which as favorably reported to the House, was included verbatim in the economy act.

In this connection I would invite the committee's attention to hearings held on H. R. 10199 before the Committee on Expenditures in Executive Departments in the House of Representatives in the Seventy-first Congress, second session, and further to the fact that this legislation was favorably reported to the House by that committee on January 9, 1931, in report no. 2201, Seventy-first Congress, third session. H. R. 10199 was embodied in the economy act as section 601, verbatim. Should this committee desire that copies of the hearings and the reports on this legislation be inserted in the record, I shall be glad to do so. May we put them in?

Senator CLARK. It depends on how lengthy they are.

Captain HUNTINGTON. I will file them with the committee for the committee's information.

Senator CLARK. We will be glad to have you file them with the committee. The committee does not wish to make these hearings any more extensive than necessary. If these copies of hearings and reports are already printed as Government documents, we do not need to have them printed again in the record.

Captain HUNTINGTON. Yes; they are Government prints.

Senator CLARK. Very well. You may file them with the committee.

Captain HUNTINGTON. With reference to the statement before this committee that the Navy performed, during the fiscal years 1919 to 1932, inclusive, \$142,000,000 worth of work for other departments of the Government, I wish to confirm the accuracy of this figure.

Senator COPELAND. How much?

Captain HUNTINGTON. \$142,000,000, sir. I wish to confirm the accuracy of this figure. However, it is desired to point out that \$108,462,000 of the total figure represents expenditures for the years 1919, 1920, and 1921, which were, in a large part, for the operation of the transports for the Army incident to the return of troops from service in the World War and for the reconditioning of the vessels for other service for the Shipping Board. With the exception of some major work for the Shipping Board, amounting to about \$9,000,000 in 1923, the records of the Department show that the total volume of work, exclusive of the years mentioned, did not in any one year exceed \$4,000,000, and that in 1930 the total work done amounted to approximately \$1,800,000 and in 1931 to approximately \$1,600,000. The total included the years 1919 to 1932. I am not giving the figures for 1932, for the record for that year is only partially included, being only up to the latter part of April. For that period it was 800,000 and some odd dollars.

Senator COPELAND. Have you the figures since that time?

Captain HUNTINGTON. I do not have them with me, but we can get them and put them in the record.

Senator COPELAND. Do so.

Captain HUNTINGTON. We will give the figures for 1932, 1933, and 1934.

Senator CLARK. I think it would be well to see what the effect of this measure has been in the economy act.
(Statement referred to is as follows:)

Statement of expenditures by the Navy Department on work done for other departments and independent establishments of the government

Fiscal year:	
1932	\$1, 013, 466. 65
1933	616, 383. 99
1934	996, 229. 63
Total	2, 626, 080. 27

Captain HUNTINGTON. You cannot take the number of years and divide it out and make a true picture at all. It is mostly in the first 3 years, sir, and for the reason I gave.

Section 1 of the bill has to do with procurement rather than accounting. It provides, briefly, that except as may be specifically provided by Congress, no moneys whatever may be expended for the maintenance or operation of any facility while engaged in the production of supplies, materials, articles, things, or services which may be procured through commercial enterprise at a cost less than that incurred by the Federal agency, unless bids, including costs not incurred, are offered by the Federal agency in competition with private bidders.

It is considered that the clause "except as may be specifically provided by Congress" is superfluous, since Congress inherently has the right to modify any statute regardless of the language of the statute being amended. With out any exceptions being stated in the bill, the language appears to merely iterate the inherent right of Congress to amend existing laws.

Senator CLARK. Captain, do you not consider, for instance, that if there were provisions such as we were just discussing placed in the appropriation bill, to the effect that the \$35,000,000 or \$40,000,000 could be expended for the Navy for repair of ships, that that would be a specific authorization without an amendment to the proposed law? So your statement is not accurate when you say that that language does not mean anything, because Congress has the inherent power to amend any statute. This is a general saving clause.

Captain HUNTINGTON. But not specific, sir, and therefore we do not know. We do not need a saving clause, as I understand, sir, because there is not any specific exemption.

Senator CLARK. Certainly; but if Congress in an appropriation bill authorized that \$35,000,000 might be expended for the purpose of repairing ships, that would fall within the provisions of this act, that measure being an amendment to the act.

Captain HUNTINGTON. We cannot agree with that, sir.

Senator COPELAND. Of course, in fairness it would have to be said that there would be a disadvantage in this, that the Appropriations Committee would go into the field of legislation, and therefore someone might raise the point of order. That is the reason why it seems to me the suggestion made by the admiral a little while ago is a wise one, because it would write into the law that there should be an exemption made.

Senator CLARK. I am perfectly willing to accept that amendment, as I said, but I do not by any means agree with the captain as to his construction of the language.

Captain HUNTINGTON. That is the consensus in the Navy Department, sir.

Senator CLARK. Yes; I am sure it would be.

Captain HUNTINGTON. Therefore, in studying the bill the Navy Department has placed upon it a literal application, which it is considered would undoubtedly be done by the Comptroller General.

Section 1 of the bill has little to do with accounting, omitting for the moment the proviso at the end of this section, but provides that the estimates of doing Government work shall include items of expense not incurred by the Government. After these estimates have been so built up fictitiously, the bill requires a comparison with bids of private firms and presumably an award to the lowest bidder. Gentlemen, it is submitted that this is manifestly discriminatory, since no one has suggested that the private bids be increased by Government expenditures not similar to those incurred by private industry, such as leave and holiday, added cost of 5-day week, inspection, and so forth.

It is the opinion of the Department that the effect of such a procedure would be the gradual elimination of work in navy yards. This result is inevitable; and, gentlemen, it is the opinion of the Navy Department that this result is the intent of the proponents of this bill. It is maintained that their interest is solely to divert to private industry work now done in navy yards, to the end that a profit will be realized either immediately or eventually, after many facilities of a navy yard have been dismantled because of lack of work. Gentlemen, under the conditions that would exist through the enactment of this bill, private interests would, knowing Government costs, be in a position to bid less than their costs and without profit in order to obtain work and thereby cripple the Government plants; and in the case of navy yards and stations, this would impair the national defense. With uncertainty as to whether work is to be done in navy yards, it would be impossible to maintain an efficient civilian working force at these places.

On the assumption that such a force is necessary to perform work in connection with the construction, repair, and conversion of vessels, if the work were sent elsewhere, as is possible under this bill, there would be much idle time, or else there would be continual turnover of the forces in the navy yards. It is apparent that in the latter case it would be unreasonable to expect workmen to make and break connections with the yard following the flow of work in and out of the yard. A nucleus of an efficient force at navy yards is of vital importance to the national defense and to the maintenance of the fleet. When a vessel arrives at a navy yard for overhaul, certain repairs having been authorized in advance, the work is immediately started from a work list prepared while the vessel was at sea. Private bidders could not bid on ship-repair work without inspection and such inspection would result in great delay, and unquestionably if this were done, the vessel would be out of the fleet for a far longer period than if the work were done at a navy yard.

Gentlemen, it is absolutely necessary in time of war that the navy yards be available for construction, repair, and conversion work of the Navy. To be ready for war it is necessary that the yards be maintained and operated in time of peace, and this means the maintenance of a skilled force under naval supervision. Furthermore, certain installations aboard naval vessels are secret or confidential, and it would be incompatible with the public interests to

indiscriminately allow contractors' workmen access to such material or devices. Work in connection with secret or confidential material or devices should be performed by workmen who are known, in whom there is confidence, and under naval supervision.

The above remarks relative to ship work would be applicable also to other work at navy yards such as repairs to buildings, wharves, tracks, and so forth, by day labor as well as new day labor projects. Estimates would have to be made for such work or projects, bids invited from private bidders, and the same difficulties of maintaining a working force would obtain as would also delay in the work.

The repair and construction of naval vessels are the most important activities of navy yards. As a necessary part of this work, certain manufacturing work is carried on. If the committee is interested in any particular items which the Navy manufactures, officers of the Navy Department are here to give any detailed information desired.

There is a very large investment in navy yards and stations and these plants should be properly maintained and operated, and as has been stated, they are vital to the national defense. The necessity for the maintenance and operation of navy yards and arsenals has been repeatedly recognized by the Congress, as set forth in appropriation acts for the Naval Establishment, wherein it is stated:

And no part of the moneys herein appropriated for the Naval Establishment or herein made available therefor shall be used or expended under contracts hereafter made for the repair, purchase, or acquirement by or from any private contractor of any naval vessels, machinery, article or articles, that at the time of the proposed repair, purchase, or acquirement can be repaired, manufactured, or produced in each or any of the Government navy yards or arsenals of the United States when time and facilities permit and when in the judgment of the Secretary of the Navy such repair, purchase, acquirement, or production would not involve an appreciable increase in cost to the Government.

Due to the requirements of the bill that bids from Federal agencies include all items of cost, plus any other items commonly incurred by private industry, Government bids or estimates may be higher than those from commercial concerns, resulting in work going to private bidders. The placing of awards on this basis will require more money to be paid out of the Treasury because of the failure to use existing facilities and consequently larger appropriations would be required since the entire amount of a private bid will have to be appropriated for, whereas only a portion of the bids received from Federal agencies will represent cash expenditures by the Treasury. Where cost is the deciding factor the decision as to whether work should be done by Federal agencies or by private bidders should be in favor of that procedure which will cause the least drain on the Treasury, and consequently on the taxpayers.

Section 3 of the bill defines elements of cost, viz, direct labor, direct material, direct expenses, and overhead expenses, in somewhat analogous form to that employed in the accounting systems at the large industrial navy yards.

Senator CLARK. I ask you, Captain, whether you have a uniform system of accounting throughout the Navy?

Captain HUNTINGTON. Yes, sir.

Senator CLARK. We learned that the Quartermaster Corps of the Army has one accounting system, and the Ordnance Department has another accounting system, and various other units of the Army have various accounting systems of their own. What is the practice in the Navy?

Captain HUNTINGTON. We have a uniform accounting system in the Navy. At the larger industrial navy yards the system is more in detail than at our smaller nonindustrial stations, but the system is one.

Senator CLARK. You have a uniform system?

Captain HUNTINGTON. The same set-up; yes, sir.

Senator CLARK. That is what I wanted to know.

Captain HUNTINGTON. It would go much further than the Navy's industrial cost-accounting system, since it would require a distribution of departmental expense into the cost of work. It differs in details because the bill has been drawn without consideration of the demands of departmental administration for statistical information which necessarily causes expenditures to be reported in a form sufficient to meet the requirements of existing law, the Budget, and to meet the wishes of the appropriation committees of Congress.

The Navy cost-accounting system provides for the inclusion in costs of all factors of governmental expenditure deemed properly an item of cost and expenditures are summarized in current reports either as appropriation costs or as statistical costs, a combination of the two giving a total industrial cost to the Navy. Some activities are maintained in these industrial yards for purely military purposes and expenditures for these activities are not included in the cost of work performed in the industrial shops. We have the marine barracks and we have machine shops, and so forth.

An extension of the elaborate accounting system as provided by the bill to all shore activities of the Navy would require an expenditure of a large amount of money for salaries of accountants, statisticians, clerks, stenographers, messengers, and so forth. It would involve the preparation of a great number of cost reports. It is believed that the cost of preparing and compiling these reports would be out of all proportion to their practical value.

In order to put the cost-accounting procedure into effect it is proposed by the proviso at the end of section 1 and the wording of section 7 that the Comptroller General of the United States shall prescribe the forms, procedure, and systems of cost-accounting through the promulgation of reasonable rules and regulations. The introduction of the Comptroller General into purely administrative problems of an executive department violates the cardinal principle that cost-accounting exists only as an aid to management. Cost-accounting is admittedly a problem of management and is used commercially for the purpose of increasing efficiency of operations and controlling the costs of production, and for production at a profit. This last factor, "profit", need not be considered because the bill fails to require a percentage of cost to be added as "profit" in the effort to make Government cost-accounting results comparable to bids of private industry. Cost-accounting is only one of the many factors of management and since responsibility for the management of the operations in any Federal agency must remain with that Federal agency, it seems to be contrary to good organization practice to confer on an auditor authority to interfere in purely administrative matters. The responsibility for expenditures of money is that of the Secretary of the Navy and the system of collecting cost information should remain exclusively in the Navy Department since it is necessary to determine administratively the extent of analyses of expenditures and to change these analyses to meet changing factors and conditions as they arise.

The committee has laid emphasis upon the words "except as may be specifically provided by Congress", indicating that this phrase should remove any objection which the Navy might have to the bill. The chairman has stated that even though the cost-accounting system showed that it might cost more to have the Government manufacture certain articles, Congress still has the right to direct that the Government continue to do so if such a proceeding was considered to be to the Government's interest. It is desired to point out to the committee that the bill also requires the Comptroller General to prescribe the forms, systems, and procedure for cost keeping and cost reporting and (sec. 7) shall make the provisions operative and promulgate such rules and regulations as may be necessary. These processes will take time; the compilation of cost data will be a lengthy process; the submission of the results to Congress, and congressional action thereon, will take even longer. In the meantime, the operation, upkeep, and maintenance of the Naval Establishment will be thrown into complete confusion and reduced to chaos and labor forces scattered, thereby aggravating the existing unemployment problem. The Navy Department, therefore, urgently recommends that the bill be not passed; if it be passed, the Department strongly recommends that the War and Navy Departments be exempted, with the legislative and judicial branches, from the provisions of this act.

Senator CLARK. Thank you, Captain.

(Captain Huntington withdrew from the committee table.)

Captain HUNTINGTON. I might say, Senator, that there are some other officers here who might want to supplement what has been said.

Senator CLARK. We will be glad to hear them at the proper time. So far we have taken up practically all the time with the Army and Navy. We want to hear some other witnesses.

Captain HUNTINGTON. Will we have a further chance?

Senator CLARK. Yes; you will have a further chance. We will hear everyone who desires to be heard as quickly as we can get to them.

We will now hear from Mr. Moran.

STATEMENT OF JOHN MORAN, COST ACCOUNTANT THE NATIONAL FERTILIZER ASSOCIATION, WASHINGTON, D. C.

Mr. MORAN. Mr. Chairman, I have with me, but I shall not file them, copies of our cost manuals.

Senator CLARK. Very well. You may proceed.

Mr. MORAN. My name is John Moran. I am the cost accountant for the National Fertilizer Association. I wish to present a brief statement concerning Senate 1 and H. R. 200, identical bills "to provide for the establishment and maintenance of a procedure for cost accounting and cost reporting for Federal agencies."

The fertilizer industry heartily endorses this bill, Senate 1, now before this committee. The industry has, for a number of years, promulgated cost-accounting systems and has in every way possible helped to stimulate interest in accurate cost findings. The advent of the N. R. A. gave new impetus to this movement. Last year our cost-accounting manuals were revised and after review by the various boards and divisions of the N. R. A. were approved by the N. R. A.

As I said, I have with me copies of our cost manuals, but I will not file them. We have distributed to each member of the fertilizer industry the Uniform Method of Cost Accounting applicable to the types of plants operated.

We feel that it is just as important for the Government as it is for any member of an industry to know its actual costs.

With the steadily increasing tendency for Government to enter into the field of private enterprise, it is becoming more important that the various bureaus and agencies of the Federal Government be compelled to keep detailed and accurate records of their costs. Particularly is this true in the case of manufacturing operations.

There should be no objection to making known the actual cost of manufacturing products which the Government may elect to produce. The taxpayers are surely entitled to know the facts, and such facts should be helpful to the Congress in guiding it in its decisions on future projects. It is highly important that each element of cost be considered in such cost calculations because of the fact that in a publicly operated plant many items of cost and costs of service may be overlooked. It is distinctly unfair to compare manufacturing costs of private enterprise with the costs in Government institutions unless the Government costs include all of the usual cost factors that private industry has to bear.

The Tennessee Valley Authority Act, insofar as the production of fertilizer is concerned, does not require that there be established the detailed cost of the fertilizer produced by the T. V. A. Section 9 of that act, subdivision (a), states that—

the Board shall file with the President and with the Congress, in December of each year, a financial statement and a complete report as to the business of the corporation covering the preceding Governmental fiscal year. This report shall include an itemized statement of the cost of power at each power station, the total number of employees, and the names, salaries, and duties of those receiving compensation at the rate of more than \$1,500 a year.

It does not state that there shall be rendered an itemized statement of the cost of producing fertilizer. The fertilizer industry is entitled to the same consideration as the power industry, in our opinion.

We think it only fair that if the Government is to produce and distribute fertilizer or any other commodity, in competition with private industry, that the fact of such cost of production on Government-owned properties should be accurately figured and that taxpayers should have the benefit of the knowledge of such cost.

We believe that it is necessary for the sake of uniformity and completeness that the establishment of such costs by governmental bureaus and agencies be made mandatory, as provided by the Senate bill no. 1 now before the committee for consideration.

I should like to add, Mr. Chairman, that in the annual report of the T. V. A. this year they state that they are setting up an accounting system to record the cost of producing fertilizer, but that is not mandatory in the bill itself that a report of the cost of fertilizer be made annually. In the T. V. A. Act it says that costs must be reported in the case of power.

Senator CLARK. Thank you, Mr. Moran. We will now hear Mr. King, Deputy Commissioner, Bureau of Lighthouses.

(Mr. Moran retired from the committee table.)

STATEMENT OF H. D. KING, DEPUTY COMMISSIONER, BUREAU OF LIGHTHOUSES, DEPARTMENT OF COMMERCE

Mr. KING. Mr. Chairman, I will make a very brief statement pertaining to the effect of the bill under consideration on the operations of the Lighthouse Service of the Department of Commerce.

Manufacturing is conducted by the Lighthouse Service only to the extent necessary, (1) to provide samples or development units of technical apparatus to fill special requirements of the Service, for example, apparatus for radiobeacon system; (2) as a check on cost of articles used in considerable quantities, but for which the commercial market offers no competition, or for which the Lighthouse Service may be the only buyer; for example, special illuminating apparatus for automatic lights; (3) to a slight extent to maintain steady employment for expert mechanics necessary to be specially trained in Lighthouse Service repair work; for example, electric welders and blacksmiths.

The number of such employees is small, the greatest number being employed at the general depot at Staten Island, N. Y., where about 15 men are now employed, and about 25 would be a maximum. The work as a whole is conducted mainly for yardstick or balance-wheel purposes, and the expense of any more elaborate cost accounting than is now maintained, it is believed would be quite disproportionate to the value thereof. The officer in charge of the Staten Island shops estimates that it would require three or four clerks to operate such a system as the bill contemplates for that plant, which is at present employing about 15 men on manufacturing work. It would therefore appear desirable from the standpoint of the Lighthouse Service to have the bill amended specifically to exempt plants employing fewer than some specific number of men, say 25, or as an alternative to exempt any branch of the public service expending less than some limited amount, say \$125,000 per annum for labor employed for manufacturing purposes.

Senator CLARK. Thank you, Mr. King.

(Mr. King withdrew from the committee table.)

Senator CLARK. Is Mr. H. E. Coneby of the Laundry Owners' Association here? Is Mr. Douglas Whitlock here? They do not answer.

Mr. KING. I have an application from Mr. Harman of the Bureau of Lighthouses. I understand your statement takes the place of his?

Mr. KING. Yes, sir.

Senator CLARK. We will call Mr. Tufts of the Map Publishers Association of the United States.

STATEMENT OF W. O. TUFTS, OF THE MAP PUBLISHERS ASSOCIATION OF THE UNITED STATES, WASHINGTON, D. C.

Senator CLARK. Mr. Tufts, will you state your name and position for the record.

Mr. TUFTS. My name is W. O. Tufts. I represent the Map Publishers Association of the United States. We presented a brief statement to the House committee last year, headed by Mr. Cochrane, which was overlooked in the printing of the record. It applies perfectly to the present situation and to the present bill, which we

believe is an improvement over the one submitted in the House last year, and with your permission I should like to present it now.

Senator CLARK. That may be done.

Mr. TUFTS. It is directly pertinent to your situation.

The bill now before your committee, S. 1, is, in our opinion a constructive step forward in the clarification of business relations between private industry and the United States Government. At the present time the systems of accounting in the various Government departments are utterly out of line with those used in private industry. With a comparable system it would be possible to distinctly understand the basis of estimates made by these Government departments. We believe it would not only be helpful to business men to show these comparisons, but it would facilitate a clearer understanding of fair prices, profits, taxation, and so forth, on the part of those elected to Congress and responsible for the conduct of public affairs.

Your committee cannot possibly go into the details of the various ramifications of Government competition with private industry. That matter was well studied by the Shannon committee. Its records and reports are at your disposal. We have no wish to burden you with the details of your own situation. It is pertinent, however, to make a few observations which may emphasize our predicament.

The Map Publishers Association has no desire to exert any influence tending to remove the Government from its map-making activities so long as the material produced by the Government has original scientific value and adds to the knowledge of our national resources. The marine charts of the Hydrographic Office and the Coast and Geodetic Survey are essential to the welfare and safety of our mariners. The topographic maps of the Geological Survey are the mother maps of all the varied map publications on the interior of our country and serve a unique purpose. Such work can only be done by Federal or State Governments and the expense of these scientific studies is a proper charge against our public revenues.

We do believe, however, that the user of these maps and charts is willing to pay a reasonable price for them and should be properly charged with the expense of editing, drafting, engraving, and printing. This would leave the taxpayer giving only the original scientific field work as his contribution to the public welfare. At the present time these maps and charts are sold by the Government at prices from one-half to one-sixth of those established by the British Government for similar publications comparable in size, scale and detail. These British organizations are understood to be practically self-supporting and we see no reason why the United States Government bureaus should not also recover costs other than the original scientific field work.

The State of New Jersey publishes topographic maps of its own area comparable with those prepared by the United States Geological Survey in other States. The New Jersey Geological Survey charges 50 cents each for these sheets retail and 40 cents wholesale, while the United States Geological Survey charges 6 cents wholesale or 10 cents retail for similar productions. I will present at the close of the statement a letter from the New Jersey Department of Conservation and Development. In other words, the taxpayer is carrying the expense of these Government activities not only in the scientific

field work, but also in all the editing, drafting, engraving, and reproduction, while the purchaser gets his maps practically without charge.

The field above mentioned is not competitive with private publishers and the points we have so far made refer simply to the fact that the average map buyer has no conception whatever of the actual value and cost of map work. He is accustomed to having his maps supplied him by Uncle Sam at little or no cost, and commercial map publishers are constantly faced with the argument that the United States Government will supply them with all the maps they need.

There are, however, many maps produced by the Government which are directly competitive with the private publisher. Each bureau is inclined to extend its activities and increase its appropriation and number of employees. Under the guise of some Government need these bureaus have produced many compiled maps which carry no new scientific information and are prepared by exactly the same methods as used by private publishers. When published, these are usually priced at a figure representing nothing more than the cost of paper and printing and are sold in direct competition with those produced by the commercial publisher.

The Post Office Department is continually called upon to deliver many thousands of such map shipments within the territorial limits of the United States and possessions free of all transportation charges, whereas private map publishers must of necessity figure such costs as a part of their selling expense.

We believe that the wording of the law under which the United States Geological Survey operates is improperly interpreted. The text reads:

The Director of the United States Geological Survey, with the approval of the Secretary of the Interior, is authorized to sell copies of the topographical maps with text at cost and 10 per centum added.

Apparently the word "cost" has been interpreted to mean only paper and printing. It is not believed that this clause was ever intended to cover compiled State maps, outline maps, United States wall maps, and so forth. This law should be amended so that all expenses other than the original scientific field work would be considered in the establishment of the cost of the maps sold under this act. At the present time the President has authority under section 7 of Public Law No. 78, Seventy-third Congress, to increase such charges in such amount as he may determine will return to the Government the cost of such a service. This authority expires June 16, 1935.

Members of the House committee asked whether we had protested against these map projects, also whether we had knowledge of the actual costs involved in these Government bureaus. Of course, private publishers cannot effectively protest such projects, because the bureau always claims that it is an essential Government need and the maps are being prepared for Government uses. It is utterly impossible for us to establish the Government costs except by comparison with our own. Even congressional resolutions do not always bring out complete facts regarding such matters, but we believe the bill, S. 1, if enacted into law, will be a great help in ascertaining the cost of these various enterprises. We are quite confident that no allowance is being made by these Government officials for rent, heat, light, power, depreciation, insurance, interest on invested capital, and possibly an incorrect allowance is being made for overhead

expense. Certainly no thought is being given to such things as taxes, moderate profits, sales expense, and so forth, which must be met by the private publisher if he is to continue in business. As the private publisher ultimately helps make these Government bureaus possible through the payment of taxes, we insist that their competition be fairly conducted.

We made an elaborate statement to the Shannon committee regarding the expense involved in commercial map products, with a comparison based on different items produced by the Government map-making bureaus. We would refer you to our brief filed with the Shannon committee for these detailed statements.

Many of the witnesses appearing before your committee will protest against the Government competition in relation to articles produced for Government use, but not sold to private parties. The map publishers are in the peculiar position of having the Government bureaus selling and distributing their products on a vast scale to the general public, and we therefore have a much more critical situation than the manufacturer who still retains his private sales, even though the Government may set up an establishment to supply its own needs.

We also have the situation of occasionally bidding on map printing for Government departments which do not have reproduction facilities of their own. Bidders on this class of work frequently find themselves in the dark regarding the basis of estimates used by the Government lithographic plants when competing for this class of work. There are seven lithographic plants in different bureaus here in Washington, each anxious to extend its activities and increase its organization. We believe S. 1, if enacted, will bring to light the elements used in the estimates and prices made by these Government plants in bidding on work outside of their own bureau.

From the aforementioned, it will be readily seen that a most erroneous and harmful impression is created in the minds of map users generally as regards the comparative value of maps, and particularly their creative cost, all of which seriously reflects in an adverse manner on the sales efforts of private map publishers.

We therefore strongly urge the passage of this bill with the belief that it will be beneficial to all concerned and especially to the taxpayer, now so heavily burdened with new and unexpected charges.

I ask to have the letter from the Department of Conservation and Development of the State of New Jersey placed in the record.

Senator CLARK. That may be done.

Mr. TUFTS. Since this time last year, Mr. Chairman, three new map projects have been initiated by Government establishments, each of which involves a very large expenditure. The transportation map under the Bureau of Public Roads is being constructed through an allotment from the Public Works Administration, costing something like one-half million dollars. They contemplated it would take about a year and a half, and the work has been going on for a year and a half and the map of only one State has been published. Aeronautical maps are being produced for the Department of Commerce, also under an allotment of one-half million dollars, and the Census Bureau has been engaged in making outline maps of the States which are perhaps useful for their work, but which are being sold at about one-fifth of what the commercial publisher would have to sell them for.

Senator CLARK. Thank you, Mr. Tufts.

(The letter presented by Mr. Tufts is here printed in the record, as follows:)

STATE OF NEW JERSEY,
DEPARTMENT OF CONSERVATION AND DEVELOPMENT,
Trenton, September 26, 1933.

AMERICAN MAP Co.,
12 East Forty-second Street,
New York City, N. Y.
(Attention Mr. L. M. Andrews.)

DEAR SIR: In response to your request I am sending herewith key map showing the distribution of our atlas sheets. As these maps are sold practically at cost of publication and transportation, we cannot make special rates to dealers beyond our regular wholesale rate of 20 percent off when ordered in lots of 20 or more.

Yours truly,

HENRY B. KUMMEL,
State Geologist and Director.

Senator CLARK. We will now hear Brigadier General Schull.

**STATEMENT OF BRIG. GEN. H. W. SCHULL, ASSISTANT TO THE
CHIEF OF ORDNANCE**

General SCHULL. Admiral Standley, Chief of Naval Operations, and Captain Huntington have so ably presented the Navy Department's side of this question, and have so well shown the possible effect that it might have on matters connected with repair work in the Navy, that some of the remarks I have to make here may appear redundant. However, I should like to make some remarks with reference to the possible or probable effect of interpretations that will be placed on this bill upon the manufacturing operations at plants which are operated by the War Department, and particularly the manufacturing arsenals of the Ordnance Department.

As the committee no doubt knows, the Ordnance Department operates six large manufacturing arsenals situated in different parts of the country. There is Watertown Arsenal near Boston, Mass.; Springfield Armory, in Springfield, Mass.; Watervliet Arsenal, near Troy, N. Y.; Picatinny Arsenal, near Dover, N. J.; Frankford Arsenal, in Philadelphia; and Rock Island Arsenal in Illinois. All these arsenals are large, highly specialized establishments, splendidly equipped for the purposes for which they are maintained and operated, and they represent the investment of hundreds of millions of dollars in land, in buildings, and equipment.

Although the combined output of these arsenals in the event of war might not amount to 10 percent of the total requirements in ordnance weapons they are, nevertheless, vitally important to the national defense of this country, not only as physical laboratories, but as places where knowledge of the art of ordnance design and ordnance manufacture may be fostered and kept alive in time of peace. This is a vitally important function in this country for the reason that there are practically no manufacturing establishments in the United States which design and manufacture ordnance weapons in time of peace. These arsenals are also the places upon which in the event of war we would have to depend for our inspectors and our trained mechanics, our trained engineers familiar with the design and the development of ordnance weapons.

Any interpretation which could be placed on the terms of this bill which would result in taking work away from these arsenals in time of peace would undoubtedly cripple them and hamper them.

Senator CLARK. As a matter of fact, General, you do make a great many things in the arsenals cheaper than they can be made in the private factories, do you not? For instance, it appeared in the hearings before the Munitions Committee that, according to the figures compiled by the manufacturers of small arms themselves, including every item that they could possibly put in, you could make small arms ammunition at Frankford Arsenal more cheaply than could be made in private manufacturing establishments. Do you not think it would be well for Congress to have those facts? We dragged them out of the files of the private concerns.

General SCHULL. I am not so sure, however, that were that private concern awarded all the business which is given to Frankford Arsenal in the manufacture of small-arms ammunition, and if Frankford Arsenal had to consider taxes, insurance, obsolescence and interest, the private manufacturer could not underbid the arsenal.

Senator CLARK. I suppose you are familiar with the figures which were presented before the Munitions Committee. Those figures were prepared by a committee representing those engaged in the manufacture of small-arms ammunition. They figured in every comparable element they could figure on, and the report was never made public, because they discovered that the ammunition could be produced, according to their own figures, approximately 30 percent cheaper at the arsenal than it could be produced in their factories. It seems to me it is of most vital importance for the Congress to know that.

General SCHULL. Yes. Frankford Arsenal manufactures quite a large quantity of ammunition every year; if that same large quantity were given to a manufacturer, and if Frankford had to consider insurance and all these things, I am not so sure but that the private manufacturer could underbid the arsenal.

Senator CLARK. I will go very much farther than the War Department or the Navy Department have ever been willing to go in manufacture of munitions of war and the building of warships in Government establishments, but I think Congress ought to know what it is costing when they do it.

General SCHULL. May I proceed with my statement, sir?

Senator CLARK. Yes; proceed.

General SCHULL. The provisions of section 1 of the bill are apparently mandatory, are very comprehensive, and make no exceptions whatever, even in the case of articles and supplies which are required for national defense and for which there are no commercial equivalents in common use.

Now, it is undoubtedly a fact that there are commercial firms in this country that could successfully manufacture many of the items of war munitions that are now made at the various Government manufacturing plants and arsenals.

There is also little doubt, if Government arsenals are obliged to take into account, in addition to the actual appropriation cost, such items of overhead as insurance, taxes, interest on invested capital, and so forth, which are not charged against funds appropriated by Congress, the total apparent cost of many articles may exceed the cost

at which such articles can be purchased from private manufacturers.

One of the questions which naturally arises in my mind—because I am chief of manufacture under the Chief of Ordnance and have charge of procurement in the Ordnance Department—one of the questions which arises in my mind is, What is to be the procedure under the provisions of this bill in the event that the total cost of manufacturing at a Government plant, plus the special items of overhead enumerated in the bill, is higher than the bid of a commercial concern?

Shall manufacture at the Government plant proceed in just the same manner as if bids from private commercial firms had not been received, or is it the intention of the bill that some agency of the Government not specifically designated shall determine, based on the bids, where the war material under consideration shall be manufactured? The bill does not contain any answer to that question that I can see.

Assume, for example, that funds have been made available by Congress and that the procurement schedule of the Ordnance Department at the beginning of the fiscal year covers such special items as tanks, antiaircraft guns, semiautomatic rifles, artillery ammunition, bombs, and the like, which are designed and developed by the Ordnance Department and regularly manufactured at the arsenals in time of peace.

Under the provisions of the bill the arsenals to which the manufacture of these items is assigned must, before proceeding with their manufacture, prepare detailed plans and specifications covering each item and send them out to all commercial firms interested in bidding on these items.

When bids are received at the arsenals they must be examined, abstracted, and analyzed to determine which is the lowest bid and whether or not the lowest bid is less than the estimate of the arsenal, plus such special items as insurance, taxes, interest, and so forth, which are not a part of the appropriation cost.

This procedure alone will consume many months of time during the year, and in the meanwhile the Government establishment to which the procurement of the material is assigned can make no commitments and can make no progress in the work.

In the event that the estimate of the Government arsenal, plus the special overhead items, is less than the bids of private manufacturers, it is assumed that the work will proceed in the usual manner at the Government plant; but much time will have been lost, as well as the extra expense of preparing circular proposals, examining, abstracting, analyzing bids, and so forth.

There will undoubtedly be many cases, however, in which the estimate of the Government arsenal, increased by such special items as insurance, taxes, interest, and so forth, will be greater than the bids of private manufacturers on these special items of ordnance equipment.

Such manufacturers, familiar with the provisions and the apparent intent of this bill, I am sure are not going to be satisfied if, after going to the expense of estimating costs and submitting bids, the Government proceeds to reject all their bids and manufactures the material at its arsenals.

The question arises then: What procedure is contemplated in this bill in the event that the total estimate of the Government manu-

facturing plant exceeds that of some private manufacturing plant for the production of war munitions under a given procurement project?

The bill, as I say, seems to contain no definite answer to this question, unless the answer is contained in section 7, which reads as follows:

The Comptroller General of the United States is hereby authorized and directed after the enactment of this act, to make the provisions thereof operative. To that end the Comptroller General of the United States shall promulgate such reasonable rules and regulations as may be necessary.

Now I do not know myself whether there is any intention in that paragraph to require arsenals to send to the Comptroller General the bids which they receive for the manufacture of ordnance weapons for a decision as to who shall manufacture them. I do not know whether that is in the rules and regulations which he is to formulate, but I think it would be nothing less than a calamity if that were the case. Apparently, under the bill the Comptroller General can take that authority. He can place that interpretation on the bill, it seems to me. And that might, in many cases, result in taking away from the arsenals work which it is vitally important that they have there in me. And that might, in many cases, result in taking away from the arsenals work which it is vitally important that they have there in order to maintain their organization, maintain their personnel, and carry out the actual will of Congress.

The same questions arise in connection with projects for research and development of new designs of weapons and munitions. All these projects involve necessarily the expenditure of appropriated funds, and there are many of them in progress at all times. They are therefore brought within the provisions of this bill. The provisions of the bill are mandatory and contain no exceptions.

Research and development projects are frequently of a secret or confidential nature. The broadcasting of information concerning these projects through the agency of circular advertisements for bids from private manufacturers is certainly not in the interest of the national defense.

Senator CLARK. General, none of these processes or inventions or formulas are secret from the munitions manufacturers of the country, are they? It has been disclosed repeatedly before the munitions committee, for instance, that your Ordnance Bureau has practically no secrets whatever from the du Ponts.

General SCHULL. Well, but this goes far beyond the few people who at this time are familiar with the research and development.

Senator CLARK. And the du Pont Co. was encouraged by the War Department to sell some of the secret formulas, the latest formulas, to nations specified by the Department itself as being prospective enemies of the United States.

General SCHULL. If we have to submit to private competition all research and development problems, there is no reason why every foreign country in the world cannot have agents here applying for these plans and specifications.

Senator CLARK. Every nation in the world can do that now, can they not? They buy these from the munitions manufacturers who are apparently encouraged by the War Department to sell them to them.

General SCHULL. We are endeavoring to prevent secret developments from getting out as much as it is possible to do so.

Senator CLARK. That did not appear in the testimony given before the munitions committee, I will say, General.

General SCHULL. As to the question of a cost-accounting system, I might say, as I did the other day before this committee, that the Ordnance Department has had a very accurate cost-accounting system for more than 25 years.

The Ordnance Department General Order No. 3 of November 17, 1924, which is revised from time to time, the last revision date being February 1, 1933, contains chapters which cover the whole system of cost accounting at the ordnance arsenals and depots, and is very complete.

As previously stated we have had a very accurate and complete cost-accounting system for more than 25 years. The Ordnance Department is engaged in manufacture on a larger scale than any other branch of the War Department. An erroneous impression was had by the committee last Tuesday when it was stated that the Quartermaster Department had their own accounting system. This does not mean that each branch of the War Department has a system of their own. The Quartermaster and the Chemical Warfare Service cost-accounting systems are basically the same as that of the Ordnance Department. They differ only in minor details to better adapt them to the needs of the respective service.

There are present representatives of the Corps of Engineers and of the Chemical Warfare Service—Major Bragden, of the Corps of Engineers, and Major Prentiss, of the Chemical Warfare Service—who will be glad to appear before the committee and make statements.

Senator CLARK. We shall be glad to hear from them as soon as we can get to them. There are a large number of witnesses present who wish an opportunity to be heard; and as I previously said, the time of the two hearings has been taken up almost exclusively by the War Department and Navy Department.

We thank you, General, for appearing before the committee.

(General Schull retired from the committee table.)

Senator CLARK. Mr. Springer, will you come forward.

STATEMENT OF DURAND W. SPRINGER, CERTIFIED PUBLIC ACCOUNTANT, REPRESENTING THE AMERICAN SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS, WASHINGTON, D. C.

Senator CLARK. Mr. Springer, will you state your name for the record, and whom you represent.

Mr. SPRINGER. Durand W. Springer. Representing the American Society of Certified Public Accountants.

Mr. Chairman, I do not represent any particular interest, but as a citizen and as a representative of a group of men that are supposed to know something about accounting there are two or three matters I should like to call to your attention in discussing a very important matter. In my judgment the passage of this bill in exactly its present form would mark an advancement in governmental procedure. However, if I were a member of the Senate or of the House I would endeavor to have a few changes made in the form in which it is now before you.

I listened a year ago to the hearings before the House committee, and I have listened to the hearings on both these days. These

situations remind me a good deal of an experience I had some years ago when President Burton came to the University of Michigan from the presidency of the University of Minnesota. Shortly after his arrival I presented the annual audit report of the university to him, and he said, "Well, I would like to look this over. Come back in a week and I will have a lot of questions to ask you." I did, and after I had endeavored to answer the questions he had in mind, I said, "Now, Mr. President, turn about is fair play, isn't it?" and he said, "Yes". I said, "What is the hardest administrative job that you have ever had in the four institutions over which you presided as president?" "Well," he said, "there is one that stands out above all others. It is practically impossible to get any one to think in terms of the university as a whole. I have a meeting of deans and every fellow comes in and tells me about the troubles of the department over which he is dean. I have a meeting of the heads of the departments and every fellow comes in and tells me of the troubles in his department. I have never yet in all my experience been able to get more than a very small percentage of either administrators or professors to realize that there was such a thing as a university."

And that is about the situation that we find when we are dealing with governmental matters, Mr. Chairman. If we are talking about depreciation—I am speaking from the standpoint of accountants—and we go to the Internal Revenue Bureau, we are confronted with their theories. If we go over to the Securities and Exchange Commission we are confronted with their theories. If we go over to the N. R. A. and attempt to get somewhere with the codes we are confronted with their theories. Then if we go up into the various credit departments that have been established more recently than heretofore we are confronted with an entirely different viewpoint.

The purpose of this bill, to centralize somewhere in the Government some one institution that does have a general control, if for no more than gathering complete statistical cost purposes, is a step in the right direction, in my judgment.

I indicated that there are two or three things that I would, as a member of the Senate or the House, like to see changed, and with your permission, with the bill before me, I will just note those. Where you have said "an estimate or bid" I would say "an estimate and/or bid". We find in practice two entirely different situations arising not only in the business world but also in the governmental world. Sometimes estimates are prepared for balloon purposes. It is intended that they will be followed by bids. Sometimes they are prepared as a finality, and I think that the introduction of the "and/or" will come more nearly to situations that may arise than simply leaving in the "or".

When you come into the proviso "That the Comptroller General of the United States shall prescribe the forms, systems, and procedure for cost keeping and cost reporting", I think you have not clearly distinguished between uniform systems and uniform factors. Personally I am not long on what is ordinarily known as "uniform systems of accounting." Cost accounting, as has been said by one of the speakers representing one phase of the Government, is an administrative factor, or at least its purpose should be for the assisting of proper administration. Systems, on the other hand, lead to sometimes very erroneous results. During my lifetime I have saved my

clients more money by throwing out systems than I have from any other one individual source. I have seen some of the systems that are in use in the Government, and some of the departments or organizations have very good cost systems. Some of them have that which can only by courtesy be called a cost system. To the concern or the department that has a good cost system this talk about increased expenses is all tommyrot. To the department that has only the courtesy cost system—

Senator CLARK. Only the what?

Mr. SPRINGER. The "courtesy" cost system—to that department it does have some meaning. The things that would need to be added to a well-kept cost system in order to produce the results that are desired to be obtained by this bill are relatively very inexpensive.

The trouble with most of the people connected with the Government may be illustrated by an experience that I had some years ago. When Newton D. Baker was Secretary of War he honored me with an appointment on a committee of three to make a study of the post exchange system for the Army. In order that I would not go too far afield he put a colonel on, and a major. Their purpose was to see that I did not get too far away from regulations. We were told in the first order that we were to provide a report under which the post exchange could be put into the Quartermaster's Department. After 3 days I convinced the other two members of the committee that we never would get anywhere, no matter how long we took, on that basis.

There is one word in the Quartermaster's Department that outshines all others—"accountability." There is one word that should be used with the post exchange that outshines all others, that is "service." I do not say that you cannot have service and accountability both at the same time, but I do say that they are very rare occasions under which both of those can be put on a straight line basis at the top of the thing that you are trying to do. And we reported to Mr. Baker that we would prefer to have our authority enlarged, which he did, and then we prepared a report. After submitting it to him he said, "Well, now your job will be to go around to the various heads of the departments in the Army, tell them what you have done, and get their views."

I am only going to detain you by one illustration of a conference. One afternoon we spent 3 hours with the Judge Advocate General and his seven assistants. At the end of 3 hours he turned to me—of course I had to do most of the talking, because they were all generals, and my major and colonel did not stack up very high in the bunch of eight generals, and then as a matter of fact, I had done most of the work in the way suggested—he turned to me and he said, "Now, Mr. Springer, do you think that the Army is going to adopt this report?" And I said, "No." "Well," he said, "if you do not think they are going to adopt it, why did you present it?" "Well," I said, "that was not what the Secretary of War asked us to do. He asked us to prepare a report as to what they should do." "Well," he said, "now if you think we should do this, why won't we do it?" "Well," I said, "the experience of this afternoon will convince you, I think. We have been here 3 hours. Can you point to a single constructive question that you have put to me during this afternoon?" I said, "Every question that you have put has referred to how the thing we want to do or we suggest should be done can be fitted into regulations, some of which are over 100 years old."

Well, then, we backed up and took a new start. I will say this for them, that a month later they gave us a unanimous approval. But it does illustrate the situation.

Now, with regard to this question of giving the Comptroller General of the United States the authority to "prescribe the forms, systems," I do not think you ought to go that far, Mr. Chairman. I think that any department that has a good system should be allowed to continue it. I think a department that hasn't any system should be made to get one. But I do believe that the question of a system is not the thing that you are after. It is the question as to the inclusion of all proper cost factors. How they are obtained is relatively immaterial, and I would change that to simply give the Comptroller General of the United States "the authority to prescribe the forms and procedure for preparing estimates and/or bids and reporting the cost factors thereof."

Now that is the thing that Congress needs to know. You need to have before you the information as to the situation not only as to appropriation cost but as to all these other costs. And that should be uniform. There is not any doubt about that. But the systems by which they are secured I think are immaterial.

Then, in section 3, where you say, "Terms embodied in the systems of accounting required by section 1 to be prescribed by the Comptroller General of the United States", I would cut out the words "systems" and "to be prescribed by the Comptroller" so it would read:

Terms embodied in the accounting methods required by section 1 shall be construed to have meanings as hereinafter defined:

I think that that will get you what you need.

And then in section 4 where you say—

Every Federal agency shall promptly prepare, and keep reports of costs in conformity with the cost accounting systems and procedures to be prescribed as herein required—

I would simply say:

Every Federal agency shall keep records and reports of costs which shall clearly show—

And so forth.

Place the responsibility on them.

Then I would add one sentence in section 7, because I have seen enough of life to know that there comes a time when it is oftentimes necessary to indicate that things that have been required have not been carried out. So I would say that "if any Federal agency fails to readjust its accounting methods to meet the requirements of this act the Comptroller General of the United States shall report the situation to the Appropriations Committee of the House of Representatives wherein appropriations originate." I think that is all you need to do to get results.

You do need to have certain cost factors known that you do not now know, and if you allow the departments to maintain the systems that they now have, if they are good, or to correct them as they see they must be corrected, with the proviso that if that is not done the appropriations committee is going to have that information before it when it next passes on the request, I think you will have taken a long

step, and, frankly, I think that some of the governmental departments are perfectly justified in maintaining that cost records are administrative problems, and that they should be allowed to do the thing as they think it should be done, and then if they do not suit Congress, why Congress can take care of it when the appropriations committee meets.

Mr. Chairman, I thank you.

Senator CLARK. The committee will be glad to have you put in writing any suggestions you have as to amendments, Mr. Springer.

(Mr. Springer retired from the committee table.)

Senator CLARK. The Chair will insert in the record at this point two letters from the Comptroller General of the United States to the chairman of the committee, one dated January 9, 1935, and the other dated February 1, 1935, and also the testimony in the previous hearings to which the Comptroller General refers.

(The letters and statements referred to are printed in the record at this point in full, as follows:)

WASHINGTON, January 9, 1935.

Hon. ROYAL S. COPELAND,
Chairman Committee on Commerce, United States Senate.

MY DEAR MR. CHAIRMAN: I have your letter of January 8, 1935, enclosing copies of S. 1 (74th Cong., 1st sess.), entitled, "A bill to provide for the establishment and maintenance of a procedure for cost accounting and cost reporting for Federal agencies", and requesting suggestions touching the merits of the bill and the propriety of its passage.

Your letter and inclosures will be given prompt attention and I shall be pleased to advise you further with reference thereto.

Sincerely yours,

J. R. McCARL,
Comptroller General of the United States.

WASHINGTON, FEBRUARY 1, 1935.

Hon. ROYAL S. COPELAND,
Chairman Committee on Commerce, United States Senate.

MY DEAR MR. CHAIRMAN: Careful consideration has been given to S. 1 (74th Cong., 1st sess.), entitled, "A bill to provide for the establishment and maintenance of a procedure for cost accounting and cost reporting for Federal agencies", copies of which were sent to me with your letter of January 8, 1935, requesting suggestions touching upon the merits of the bill and the propriety of its passage.

The bill, except for minor changes, is the same as H. R. 6038, Seventy-third Congress, and on which hearings were held by the House Committee on Expenditures in the Executive Departments during February and March 1934. This office reported by letter of January 29, 1934, to the Committee on Expenditures in the Executive Departments, House of Representatives, on H. R. 6038 and I appeared before such committee with respect thereto on March 15, 1934.

I believe such report and my statements as printed in the hearing on H. R. 6038 (pp. 163-179 and 270-271), which will of course be available to you and your committee, will serve to advise you as to my views concerning what appear to be the purposes of Senate bill 1.

Should your committee decide to report favorably on the pending bill or one having a similar purpose, it is believed that amendments to require full compliance and to make provision for waiving publication of certain of the reports should be considered.

This office will gladly render your committee every possible assistance, if desired, in working out such amendments and any new provisions necessary to accomplish the committee's purposes.

Sincerely,

J. R. McCARL,
Comptroller General of the United States.

HEARINGS ON UNIFORM COST-ACCOUNTING SYSTEM

HOUSE OF REPRESENTATIVES,
COMMITTEE ON EXPENDITURES IN THE
EXECUTIVE DEPARTMENTS,
Thursday, March 15, 1934.

The committee met at 10:30 a. m., Hon. John J. Cochran (chairman) presiding. The CHAIRMAN. Gentlemen, when the committee adjourned last week it was agreed that we would hear Comptroller General McCarl today.

STATEMENT OF HON. J. R. McCARL, COMPTROLLER GENERAL

Mr. McCARL. Mr. Chairman, when the committee sent the bill to my office for consideration and report, we saw what we thought was a step in the right direction. I suggested in my letter that the measure in its present form is not perfect and I doubt that it will accomplish just what the committee or the author had in mind. In administering the General Accounting Office it has frequently come to our attention that the absence of accurate knowledge as to actual costs leaves the Congress in rather a difficult position to determine whether or not it is desirable and in the public interest to continue an activity, and it makes impossible also one duty that you look to us to perform and that is to suggest to the Congress more economical methods. It seems to me that no business could be conducted successfully without knowing what it costs to conduct that business and still the Government is conducting many business activities without means of knowing what it costs. As to those activities that are not strictly governmental but are engaged in by the Government for one reason or other, it should be known what they are costing, for without insuring costs, the Congress is in the dark. To illustrate:

The cost of maintaining and repairing Government automobiles and trucks in the city of Washington. It is a serious question whether it is advisable for each department to maintain its own facility or whether it would be more economical to have a central facility to take care of all that work. That is just an illustration. The members of the committee know as well as I how far the Government has gone forward in multiplying activities and how difficult it is for the Congress to determine whether there should be continued a particular activity or whether it is costing too much. It is impossible to know unless we have an accurate cost-accounting system that will reflect the actual costs. The extent to which that system should go is debatable. The element of overhead would make for difficulty as in most instances a large portion of the overhead involved is maintained for other purposes, but there are certain elements of direct cost that could be completely maintained at all times. The temptation in any department or establishment entrusted with one of these activities, and I do not mean to speak disparagingly, but the tendency is there to utilize other appropriations in one way or another to make this going concern an apparent success.

A convenience for them, and once started it is difficult to stop unless you have facts with which to stop it, to show it should be stopped, but it is frequently a difficult matter to show conclusively that appropriations are being used on other activities than those for which made, and in accomplishing that for which they were intended to be used. If cost accounts were kept there would be means of determining that appropriations had been improperly employed, such as through employing half a dozen or more people on one roll and have them work for account of another, or utilizing lumber, hardware or other supplies or materials purchased for another use and by employing other appropriations, for the accomplishment of the work at hand, and which may have no relation to the original purpose for which the money was made available.

We have talked before about property accounting. I think the two, cost accounting and property accounting, are intimately related. Each agency of the Government is accountable only to itself for uses of its property. There is no accounting for the uses of public property such as exists for the uses of money. It seems to me that any system of cost accounting must necessarily involve with it, at least to some extent, property accounting.

Some system should be devised whereby departments and establishments would be required to account, generally, for property acquired through the use of moneys entrusted to them. It is difficult for the Congress to know with any certainty what moneys should be appropriated for the departments or establishments and for prospective uses without knowledge as to just what property is already available to accomplish that for which the particular department or

establishment is seeking an appropriation. This seems essential information in order that the Congress may provide only sufficient funds to accomplish what the Congress wishes accomplished. Without such information the Congress must labor in the dark and without adequate control, I regard the problem as one that should have serious study to the end that there may be provided some system for property accounting and cost accounting in connection with these numerous activities, so reflecting accurate information that at any moment the Congress may consider whether any manufacturing, repairing, construction or other such activity in which the Government may be engaged should be discontinued. Without such a system for bringing together the material facts it would be difficult for the Congress to have such a picture before it as would be needed to determine what it should do.

I tried to bring out in my letter that I thought there was good in this measure and I think there is. I think it is the beginning of a movement for a proper system of control through law of the ultimate uses of appropriations.

Have I covered generally the things you wished?

The CHAIRMAN. General, what is your feeling in reference to the enactment of this legislation now as it was presented to the House? Do you think it would be advisable to include all the emergency activities that are going on at this time?

Mr. McCARL. Well, this is a hectic time. We are engaged in a great many things that perhaps have no relation to permanency. Just when the system should go into effect, would be a matter for very serious consideration. There are, of course, at this moment a great many activities that no one intends to extend for any considerable length of time. I think it would be lost hours and unnecessary expense to include them.

I doubt, gentlemen, that there is any such agency of the Government which is not now maintaining a more or less accurate record of costs. I cannot believe, for instance, that the navy yards are being conducted without some sort of record of costs, and I cannot believe that other similar activities are being conducted otherwise, by men capable of their management. It is just a matter of seeing that all proper costs are included and putting the record in form for inspection and for the consideration of a committee of the Congress or such agency as the Congress may designate.

I doubt that any considerable business would be attempted by a department or establishment without some carefully preserved record of costs. It would seem so unbusinesslike that I cannot for a moment, charge that recklessness to anyone who would be competent to conduct such an activity.

Mr. BROOKS. Have you any idea how the system employed by the Navy Department compares with that employed by a private manufacturer?

Mr. McCARL. I have never had anything to do with the cost-accounting system in vogue in the navy yards.

Mr. BROOKS. Could we make available to General McCarl a typewritten copy of the testimony; it would be inadvisable to print it.

The CHAIRMAN. We have a typewritten copy of all the testimony. It will be printed unless the committee should indicate that it should not be.

Mr. BROOKS. General, with that evidence before you, having indicated that the bill is not perfect, could you redraft the bill for the benefit of the committee, with a view to carrying out some of the suggestions which you have made?

Mr. McCARL. I suggested in my letter that after the committee had held hearings and had reached some sort of a conclusion as to what should be embodied in the bill, I would be glad to aid in drafting the legislation that would carry out what the committee would like to do. I thought, after you had hearings and had reached some idea as to what you would like to do, and you may wish to include some form of property accounting, I would be glad to be of assistance.

Mr. BLANCHARD. On that point, could I pursue further the suggestion made with reference to cost-accounting of property? As I understood your statement, once the fund is made available it is changed from cash into property and then it ceases to be cash, accountable for in a cost-accounting system; am I right?

Mr. McCARL. Not under the present system.

Mr. BLANCHARD. That is what I mean.

Mr. McCARL. Under the present system, there is no cost-accounting system; the only accounting system is a cash accounting; the Accounting Office becomes again interested only when the property is converted back into cash.

Mr. BLANCHARD. Which means if an establishment had \$500,000 in cash and converted it into property for use in construction, and then came to Congress for more money, the statement of accounts would not reflect the property which might be on hand?

Mr. McCARL. Not at all.

Mr. BROOKS. At what amount do you estimate the surplus property in the various departments at the present time?

Mr. McCARL. I presented that at one time in a report.

Mr. BROOKS. Was it \$2,200,000,000?

Mr. McCARL. It was in a report which I made to the Senate; I do not have the exact figures.

Mr. WHITTINGTON. What is the approximate amount of surplus property, and you have stated that you do not have the exact figures, to add to the report which you made to the Senate? I saw the report, and my recollection is that it was \$2,200,000,000; it was more than 2 billion; the exact amount I do not recall.

Mr. McCARL. I am told that is about right; a copy of that report will disclose the exact amount.

Mr. WHITTINGTON. How much was it?

The CHAIRMAN. We get that report annually; under the present policy of the House, those reports are no longer printed; we have the records of all the reports, but the cost of printing is so great that the Joint Committee on Printing, with the Speaker, came to the decision that only where the Speaker so recommends are the reports to be printed before they are referred to the committee. Every report that came to Congress was formerly printed. That has been stopped.

Mr. BROOKS. I want to develop the best information in connection with your suggestion that maybe surplus property should be included in the bill; how much surplus property is there; what would be the normal amount?

Mr. McCARL. I would not want to state that; I am not in position to give an estimate at this time.

Mr. BROOKS. Would 2 billions be too much?

Mr. McCARL. I would consider that rather exorbitant.

Mr. RICH. General, we have had 4 or 5 public accountants before our committee, and they have made some recommendations in reference to the bill. Several of them have been in conference during the past week and have made some recommendations of changes. If we submitted these recommendations that have been made by these public accountants who have been here, to you, or would it be possible for you to have a conference with them to determine some of the things that might be included in the bill to make it more perfect; would you be glad to work with them?

Mr. McCARL. I would be glad to serve this committee in any way possible.

Mr. RICH. I have several questions that I would like to ask General McCarl. The first is, does the system of accounts prescribed by your office make provision for cost keeping?

Mr. McCARL. There is a provision in the Budget Accounting Act that makes it possible in some instances, and I should have mentioned that in my original statement. One difficulty in connection with our duty in prescribing a system of account keeping is the lack of any means of giving effect to what we prescribe. In dealing with moneys appropriated and in the Treasury, we have means of giving effect to our decisions. We now can prescribe a system of account keeping for an agency, and it usually results in a question as to whether they want to adopt it; there is no means of exacting the service. That is one of the defects of this bill.

Mr. RICH. Is it not true that in prescribing systems for administrative appropriation and fund accounting, your office frequently finds it necessary to include cost accounts to meet administrative needs?

Mr. McCARL. Yes.

Mr. RICH. Does the keeping of cost accounts, in conjunction with regular appropriation accounts, make necessary duplication of records?

Mr. McCARL. No; I think it tends to simplify records. In other words, in building the entire system, we have no difficulty, where we are permitted to function, in including that element and making it a part of the entire system.

Mr. RICH. Is it not true that a properly organized accounting system could be made to supply cost data without duplicating records?

Mr. McCARL. Yes.

Mr. RICH. Can you tell the committee how many departments and establishments of the Government are now keeping cost accounts?

Mr. McCARL. No.

Mr. RICH. Not any?

Mr. McCARL. I am not sure they are not; they are not rendering them to the General Accounting Office but they may be keeping them.

Mr. RICH. Would you say that in those offices which have cost accounts, the expense of accounting is appreciably higher than in offices that do not maintain cost records?

Mr. McCARL. I do not think it should be.

Mr. RICH. Do you think that the keeping of cost data, as outlined in the bill under consideration, is desirable?

Mr. McCARL. Yes; I do. But there is an absence of a provision for uniformity, and it is my idea, too, that there should be such provision and coupled with it a provision to make it effective.

Mr. RICH. In connection with your statement, would that be because of the fact if you established cost accounting in Government it would differ from the cost accounting in business, or because of the fact they would not want to keep a standard system of accounting?

Mr. McCARL. Both.

Mr. RICH. If the bill, as it is now drawn, were enacted into law with the amendment that the cost systems required thereunder be prescribed by the Comptroller General of the United States, could the General Accounting Office, in your opinion, effect a revision of present systems so as to produce the information desired without making it necessary for the departments and establishments to employ additional help?

Mr. McCARL. I think it can be much more economically done than some suppose. Whether there would be need to employ additional help would depend on the size of the concern. I would not want to say that revamping the cost-accounting systems in the large establishments, such as the navy yard, in order to compile data and get it in form for inspection would not require more clerical help. You would only determine that by first investigating the present system.

Mr. RICH. The general practice in business today, where they have gotten away from the single-entry bookkeeping such as our forefathers had and adopted a double entry, wherein they reveal the information respecting their cost, if that information were given to the Members of Congress, do you believe that they would be willing to continue on with some of the practices that are now in common use in the various departments of the Government?

Mr. McCARL. Do I believe that Congress would wish to continue on?

Mr. RICH. Yes.

Mr. McCARL. That would be a matter entirely for Congress to determine. If they desired to continue for some reason other than cost, I can conceive of Congress wanting an activity to go forward without regard to cost.

Mr. RICH. In other words, you are a little skeptical as to whether men in political life would do that which is best for the taxpayers of this country?

Mr. McCARL. No; I do not have that in mind. I can conceive that there may be an activity which, for some public reason, they might not wish to discontinue; we are doing a great many expensive things.

Mr. RICH. I want to say to you that I asked that question in that way because I believe that sometimes they may think we overlook the fact that it was a sensible thing to do, and it may be considered from some other angle as to whether, in good faith, it ought to be continued or not.

The CHAIRMAN. Why put the General on the spot?

Mr. RICH. I am not putting the General on the spot. I believe this, in connection with your first statement; that the author of this bill had in mind only this thought of trying to reveal the actual cost of Government operations so that Members of Congress, after they have realized the situation in connection with Government operations, would try as best they could to render that service to the people of this country that would be for their best interests. Is there anything in the bill that is not in accordance with that idea? If so, I would like for you to point it out. I think your first statement would leave this committee somewhat under the illusion as to the bill not having been drawn with that intent and purpose.

Mr. McCARL. If I said that, I did not intend it. I said on that proposition that the bill, in its present form, would not accomplish the result the author apparently intended or had in mind.

Mr. RICH. I misunderstood you; I am glad to have that correction.

Mr. CARPENTER. Do you think it is necessary or essential for the Government to manufacture as many items as they are manufacturing today? I think it has been testified that we are manufacturing 200 or 250 different items; that, to me, seems to be the whole problem we are confronted with. In your opinion, do you think it is necessary to manufacture all these items? Do you think some items could be eliminated without the expense of an extra cost system to determine it?

Mr. McCARL. My thought was this: Evidently, at some time there has been the thought in Congress that what is now being done should be done by the Government. I do not know of a better way of bringing to the attention of the Congress the facts from which to determine whether these activities should be continued or discontinued than to set up costs. The matter of policy, as to whether or not there should be this activity, even at greater expense than the same thing could be accomplished by private interests, is purely a question of Congress.

I am concerned, and I think it is my duty to go as far as I can to develop the facts for the Congress in order that the Members may intelligently act upon the question of whether or not an activity should be continued or discontinued. That is why it impresses me that this bill is a step in the right direction. This thought will lead ultimately to a solution, if coupled with property accounting and a provision requiring observance, of many existing difficulties, and there could be required records as to what is occurring in particular activities by the use of which you may intelligently act upon questions as to whether you should discontinue or continue such activities. That is what I want to make clear. You intrusted my office with the duty of reporting to you when it appears things might be done more economically and advantageously, and it is a rather difficult thing to do unless one can get basic facts. I do not know just how some of the activities are being conducted; that is, whether they are operating economically or extravagantly and I doubt if we can find out without tremendous effort and unnecessary costs unless the system is revised.

Mr. CARPENTER. Can you tell how many establishments are keeping cost accounts?

Mr. McCARL. I do not know.

Mr. CARPENTER. To what extent has the Division of Procurement in the Treasury changed the previous methods of purchase of supplies?

Mr. McCARL. Not to any considerable extent. I was very strong for the Division of Procurement; that is, for a centralized purchasing activity, first, because I thought it would permit of purchases more advantageously to the Government, and, next, because I thought it would solve the surplus question. I thought the Division of Procurement would immediately survey the situation with reference to existing stocks, the possibility of their utilization advantageously and possibly accomplish an immediate saving of a considerable sum of money. Just how the Procurement Division is functioning, I do not know; it is a new agency; I am hopeful it will take advantage of its opportunities and accomplish a great deal.

Mr. CARPENTER. Is it one of its duties to set up consolidated inventories?

Mr. McCARL. I doubt that it is. I do not remember the text of the order creating it. I think they have sufficient authority to control surpluses; that is, to require utilization thereof.

Mr. CARPENTER. Would you advise, if such a cost-accounting system is adopted as is suggested in this legislation, or has been discussed here that it should come under the supervision of the Comptroller General?

Mr. McCARL. I think perhaps some agency should be designated to exact uniformity; I think there should not be as many systems as activities. I think, if you are going to attempt to provide Congress with the information it will need in order to know what is going on, there should be a uniform system.

Mr. CARPENTER. That should be provided in the bill? The bill should be amended?

Mr. McCARL. Yes; I think whatever agency is to prescribe the system should be stated in the legislation; if it is the General Accounting Office, I think we have the facilities with which to do it.

Mr. CARPENTER. You would not have to go to some outside agency?

Mr. McCARL. No; it should be done in the Government. I think, since my term of office is about over and I may not now be accused of attempting unduly to augment my duties, I may suggest that in my judgment the General Accounting Office is the agency to prescribe the system.

Mr. CARPENTER. We would not have to go to some accounting firm in New York or Washington to get their advice?

Mr. McCARL. No; you have excellent talent in the Government.

Mr. CARPENTER. Would you suggest a system very materially different from the accounting system in existence in the departments now?

Mr. McCARL. I do not think so; I would want to know, of course, something more as to the present systems in the larger establishments. I will be greatly surprised if there is not found in the large establishments a complete cost-account-

ing system and a sufficient record of costs; I do not believe they would attempt to function without that record. For instance, I know something of the methods of the navy yard, and I know they do not function haphazardly. I think that is true of other agencies where any large amount of work is done. I think we could utilize that information and install a system that will bring to the front the information that is necessary to a knowledge of what is going on.

Mr. CARPENTER. You brought out the proposition of property accounting, which I think is advisable. I would like to know if it is the practice of departments, in asking for appropriations, to ask for all they can get for the purchase of more property, when they have it already on hand.

Mr. McCARL. I think one might be tempted to do that.

The CHAIRMAN. There has been some discussion as to how we are going to include information in reference to certain items entering into cost, such as insurance, depreciation, taxes—local, State and Government, and so forth. In response to a letter I sent to the Public Printer, asking him for information relative to his accounting system, I have a reply, and it is evident that he is proud of his accounting system. He made special mention of the fact that he did not include in his cost accounting any charges in reference to depreciation, insurance, taxes, and so forth. How are we to estimate such items in our cost accounting?

Mr. McCARL. The Government does not insure and it does not pay taxes.

The CHAIRMAN. That is true but that is the question that has been brought up by those favoring the bill; they say it is essential that those items should appear, and if they do not, they say you are not going to deal fairly with industry, in trying to arrive at the cost of manufacture by the Government in comparison with the cost of manufacture by private industry.

Mr. McCARL. That is another element.

The CHAIRMAN. That is bothering me.

Mr. McCARL. I have been considering the bill more from the Government's side than I have from the industry's side. If it is a question of competition between the Government and an outside industry, that is a different matter.

The CHAIRMAN. That is behind the bill. Get the Government out of business.

Mr. WHITTINGTON. Did you mention in your letter of January 29 to the chairman of the committee the matter of property accounting?

Mr. McCARL. No; but I have discussed it with him before.

Mr. WHITTINGTON. As I understand, the Government of the United States has substantially 2 billion dollars in property.

Mr. McCARL. As I remember, that is about what the surplus was.

Mr. WHITTINGTON. Generally, what are the major items in that amount of property; what are the major items that make up this 2 billion? Can you give some idea of the major items?

Mr. McCARL. In the military service, their supplies and stores—

Mr. WHITTINGTON. Does it include buildings?

Mr. McCARL. No; not real estate at all.

Mr. WHITTINGTON. You only include personal property in that 2 billion?

Mr. McCARL. Yes.

Mr. WHITTINGTON. And the major items would be, according to your recollection, military stores?

Mr. McCARL. I would say stores, which include the military service, the Indian Service, and so forth; as I recall, one report includes storehouse stocks only.

Mr. WHITTINGTON. The 2 billion dollars are storehouse stocks, and principally in the War Department?

Mr. McCARL. Naturally, they would be in the Army, Navy, and the Interior Department.

Mr. WHITTINGTON. Do not those departments keep inventories?

Mr. McCARL. They have no property accounting, as I tried to make clear. That is intrusted by statute to them.

Mr. WHITTINGTON. That is what I understand. They are the proper people to keep inventories of the properties which they purchase?

Mr. McCARL. They should; yes.

Mr. WHITTINGTON. When they ask for a requisition or for other property, or an appropriation to buy other property, do not they furnish us with an inventory of the property which they have on hand?

Mr. McCARL. They may.

Mr. WHITTINGTON. Is it not reasonable to suppose that they do?

Mr. McCARL. If I were Director of the Bureau of the Budget, I would ask for that.

Mr. WHITTINGTON. Have you any information that the Budget is unable to obtain the property, in stores or otherwise, of the various departments at any time when requisitions are made for additional appropriations for the purchase of stores or property?

Mr. McCARL. You can get that better from the Director of the Bureau.

Mr. WHITTINGTON. You understand I have tried to get upon what you base your recommendation; I am not saying there is no merit to the recommendation as to property accounting, but it is inconceivable that there would not be inventories in every department of all the property of that department, so I would like to know what investigation, if any, you have made to determine whether or not these departments maintain records of their property.

Mr. McCARL. There is no doubt that a department has a record of what it has, but what I had in mind was this: There is a laxness, it seems to me, in turning over to a department vast properties without any requirement that it show publicly what it does with its property. There are sales of surpluses, with continuing purchases of new property; there are continuing disposals and continuing purchases, and it seems to me Congress should have the means of watching that situation; Congress make the appropriation for a particular purpose but when the money is converted into property it becomes an administrative matter with no accounting for uses. It seems to me there is a need in Congress for seeing what has been done with property acquired with appropriated money; not only the surplus, but all. It is not alone a matter of surplus, but what has been done during the whole year, with the property so acquired. There is no system to prevent waste and none to prevent public property getting away. It seems to me there should be accountability for public property—accountability to some disinterested or independent agency outside of the interested agency.

Mr. WHITTINGTON. Have you made an investigation, and if so, does that investigation warrant you in saying that there is now no system that would enable you or any other person to ascertain what disposition is made of property purchased by any department of the Government?

Mr. McCARL. No; but it might be different in view of the fact that by law accountability for property is to the interested agency.

Mr. WHITTINGTON. In the matter of raincoats, and in the matter of surplus war and Navy supplies, the Budget and then the Committee on Appropriations is presumably fully advised as to those stocks, before that committee would consider or recommend the purchase of additional stocks. Is there any defect that would prevent either the Budget or the Appropriations Committee, or the Congress, from ascertaining the true facts with respect to the disposition of the surplus or the use of that surplus or the amount of that surplus?

Mr. McCARL. You are continually ascertaining facts after something happens; what I had in mind was a system whereby spending agencies would account to some independent agency, render an account of property expended, showing stock on hand at the beginning of the fiscal year, additions, uses, losses, and so forth, accruing during the year, and conditions at the end of the year, as would be done in a hardware business or in a lumber business. They undoubtedly have such records but they keep them and if any wrongdoing has occurred in such connection it is usually ascertained only after a congressional investigation.

Mr. WHITTINGTON. You do not mean to say they have no such record?

Mr. McCARL. They probably do, but it is an administrative record.

Mr. WHITTINGTON. Take the Navy Department; what investigation of the Navy Department have you made, if any, that would lead to the conclusion that their system is not adequate for determining at any time all the property, and the disposition of the property, that has been purchased by the Navy Department?

Mr. McCARL. I think you could go into the Navy Department, and by searching the records find out how much property they had consumed and, generally, where it had gone.

Mr. WHITTINGTON. Do you know of any department where that same situation would not obtain?

Mr. McCARL. Possibly not; they have some record what has happened. That was not the point; has it all been used for the purposes of purchase; has it been given away; or has it been stolen?

Mr. WHITTINGTON. Is it not true that if the property was not used for the purpose for which it was purchased, and for which appropriations were made, that there is a remedy; that the officials who use property for other purposes have violated a statute which would make them responsible civilly?

Mr. McCARL. How are you going to find it out?

Mr. WHITTINGTON. I am trying to find out if there is a defect.

Mr. McCARL. You cannot find it out largely as a result of having no property accountability; it does not come to light as a matter of course.

Mr. WHITTINGTON. Is it not rather the lack of an auditing or supervision by an outside agency than the keeping of accounts?

Mr. McCARL. That is it. I thought it would be assumed that accountability means making an accounting to some disinterested agency.

Mr. WHITTINGTON. There is a lot of difference; that was my thought in asking the questions.

Mr. McCARL. I am sorry I did not get it more quickly.

Mr. WHITTINGTON. You got it quickly enough. Now, General, from your broad experience, and I have high regard for it, and I have high regard for your opinion, and I am saying that without any flattery, would the same, or substantially the same cost-accounting system that applies in private business, be applicable in Government business?

Mr. McCARL. I would say, for the most part yes; there are elements with respect to which there would have to be something worked out. I am not prepared this morning to give my view of what would be a proper cost-accounting system; it will require study and that problem will have to be solved. If you are trying to set up Government against industry, you will find elements lacking in the Government. You will have to substitute something for the elements which industry is required to carry, and the Government agencies are not; for instance, with respect to Government activities, insurance and taxes are not involved; they do not pay taxes.

Mr. WHITTINGTON. They do not pay interest.

Mr. McCARL. We pay interest on all money we borrow.

The CHAIRMAN. That is the point they have been making.

Mr. McCARL. We pay interest on all borrowed money.

Mr. RICH. Consequently, from your observation and experience in the Government, would an accounting system in the Veterans' Bureau be proper for the Department of Commerce; I meant to ask would a system of accounting in one department generally be applicable, and properly applicable, to all departments?

Mr. McCARL. Very largely, because you will see it turns on the nature of the particular work done; if it is repairing automobiles, an automobile is an automobile whether it is in the Army or in the Navy; it is still an automobile.

Mr. RICH. What other departments of the Government, for instance, than the Army or the Navy manufacture munitions?

Mr. McCARL. None, I think.

Mr. RICH. What comparable uniform accounting systems would there be in other departments?

Mr. McCARL. None, so far as the manufacture of munitions is concerned.

Mr. RICH. So there might have to be variations?

Mr. McCARL. I think there would have to be variations, just as the variations occur in business, but the cost-accounting system for one steel company and another steel company would be practically identical, or should be, but yet they would have no relation to a grocery business.

Mr. RICH. And those systems would be different from an adequate cost-accounting system in a Government department, because a steel company at least gives some thought, if not much consideration, to the question of profit.

Mr. McCARL. I imagine so.

Mr. RICH. So we would have to make some difference there.

This committee has a report from the Navy Department in which they say they are keeping an accounting system that is satisfactory.

Mr. McCARL. I would be greatly surprised if they were not.

Mr. RICH. We have a substantially similar report from the War Department.

Mr. McCARL. Take the Navy Department; the system of cost accounting they are keeping might be very accurate, as far as it goes, but when you get into it you may discover there are not included elements which a proper system should include.

Mr. RICH. We also have a similar report from the War Department. Now, General, these two Departments spend the larger proportion of the public expenditures, compared with other departments, except in the matter of salaries.

Mr. McCARL. Yes; in the matter of manufacturing and things of that kind.

Mr. RICH. So, before we or you or other reasonable men, pass a law or a statute designed to remedy an evil or to improve a situation, we had better find out the facts, and we do not want people to lose confidence in the Government by saying that they have not a record of the property purchased or disposed of;

we do not want to take action until we find out the facts upon which to base such statements.

Mr. McCARL. You are not suggesting they have no such record?

Mr. RICH. Not at all. We have a report from the Department of Commerce in which that Department says they have a cost-accounting system in the Light-house Service; do you know anything to the contrary?

Mr. McCARL. No; I have said several times I have not investigated their cost-accounting system.

Mr. RICH. Then the Treasury Department says that an accounting system for that Department might not be at all proper for another department; they have been operating 140 years, so we at least ought to have their views as to whether they are right about that before we reach any conclusion.

Mr. McCARL. Surely.

Mr. WALTER. In handling surplus supplies, has it not been the previous practice, if the Army had a hundred thousand pairs of socks and the Navy needed a hundred thousand pairs of socks, the Army would sell its surplus on the open market and the Navy would buy its hundred thousand pairs?

Mr. McCARL. I thought the Division of Procurement would cure all that.

Mr. WALTER. That is one thing that the Division of Procurement is intended to do?

Mr. McCARL. That was one of my purposes in advocating a Bureau of Procurement, that all surplus could be best utilized.

Mr. WHITTINGTON. I think you are right; that is different from the accounting

Mr. McCARL. That ought to be cured, because there is doubt about the wisdom of throwing surplus on the market without due and proper consideration.

Mr. GOODWIN. The Division of Procurement would attempt to get out standard specifications?

Mr. McCARL. I have great hopes for the Division of Procurement; I believe those engaged on its duties are seriously interested, and that there will be, ultimately, beneficial results.

Mr. GOODWIN. I presume the Division of Procurement is somewhat similar to the purchasing agent of a large corporation.

Mr. McCARL. Somewhat.

Mr. GOODWIN. May I ask if that line could not be developed to the point of having a definite purchasing agent or division that would clear all the departments; that is, requisitions made on the Division of Procurement by every department; would not that tend to handle the surplus stocks? Would not that tend to bring them down, and would not that tend to get better prices and give a clearing house for the whole Government?

Mr. McCARL. That is about what is intended among other things.

Mr. GOODWIN. How much authority do they have? Should not that thought be developed?

Mr. McCARL. I think it has ample authority to do all those things, to make the best possible purchases and to require the best possible use of surpluses and not to permit the purchase of supplies until surpluses are utilized.

Mr. GOODWIN. For instance, the example just mentioned by the Congressman from Pennsylvania, regarding socks; if the Navy should require a certain number of pairs of socks, and that requisition should go to the Division of Procurement, and if the Division of Procurement found that in the War Department there were sufficient socks to take care of the situation, they could make the transfer; do they have that authority?

Mr. McCARL. I think they are beginning to function in a useful manner. It is young, and it must not be expected to be perfect.

Mr. GOODWIN. I am very interested in that feature of it; I have seen purchasing departments operate.

Mr. McCARL. All purchases in any activity should clear through that agency, to find out whether or not there is a surplus elsewhere available.

Mr. GOODWIN. I was somewhat at sea regarding the general accounting proposition, as to what was going to be the result after we obtained the information. I can see clearly if the Division of Procurement has those things available, that through that Division of Procurement we can clear this whole thing.

Mr. McCARL. Yes; I think so.

Mr. GOODWIN. Have you sufficient authority for creating a Division of Procurement to the point of its acting as such a clearing house?

Mr. McCARL. The President created the Division of Procurement under the reorganization statute; it was not created by direct law; it was created by the President in his original Executive order. It has been delayed in functioning

because of certain difficulties, but my understanding is it is quite thoroughly organized now. I do not think it has had a definite existence for more than 2 or 3 months, however.

Mr. GOODWIN. Does it need any further legislation on the part of Congress?

Mr. McCARL. The Division of Procurement is in the Treasury, and, of course, it is not a part of my establishment, so that I have only general information about it, and whatever information I have was largely obtained through reports made to me by my people who are aiding them in setting up a system.

Mr. GOODWIN. I am trying to get information to satisfy my own mind as to how far this division is functioning at the present time. Take the Army or the Navy as an example; in purchasing supplies of any kind, do they purchase on their own authority, or do they do it through the Division of Procurement?

Mr. McCARL. I would suggest that you get in touch with Admiral Peoples, who is in charge of procurement in the Treasury. I understand he is devoting a vast amount of time and attention to that division, and I am sure he would be glad to explain what his plans are for the future.

Mr. BLANCHARD. I appreciate the fact that no one can estimate the cost of installing a uniform system of accounting or of maintaining it. I think you made the statement, General, that you did not expect it would cost a great deal to install or a great deal to maintain, but you made the statement prior to the time that the chairman called to your attention the fact that industry was interested from a comparative standpoint in ascertaining overhead costs, such as taxes, insurance, and depreciation. With those three elements in mind, along with others that might necessarily go into a cost-accounting system that would give industry an opportunity to compare its costs with those of the Government, would you still make the statement that the cost of installation and maintenance would not be exorbitant?

Mr. McCARL. Yes; I would. It has been revealed that both the Army and the Navy already maintain a cost-accounting system, and they thus have the necessary information. It might be necessary to revamp such information, because their judgment might be that certain elements should be excluded, while looking at it from the viewpoint of Congress we might conclude that such costs must go in and, possibly, others should be deleted; but in revamping that system, the system they are now maintaining will be available.

Mr. GOODWIN. You would not think it would be exorbitant or excessive or anything that would scare the Congress away from legislation, if otherwise desirable?

Mr. McCARL. No. I am confident they already maintain systems in 90 percent of the departments.

Mr. BROOKS. In the letter from the Secretary of the Interior he states that the accounting systems now in force in the Department of the Interior are working satisfactorily and provide all the information necessary for justification of the Budget. That is his opinion.

Mr. McCARL. Such would likely be the opinion of the head of any agency; but I am looking at the problem from the viewpoint of the view of the Congress.

Mr. BROOKS. Would it not help a great deal to have an analysis of the purposes for which public funds are spent, so you could compare the costs of operation on one Department with the costs of similar operations in other departments?

Mr. McCARL. I think it would be desirable; I think it would make for economy and efficiency in administration.

Mr. THOM. Let me ask the General a question. Is there any way by which your Bureau could conduct a survey of the various departments and find out what they do have? We are talking about something we are very uncertain about; you are, yourself. Could you not ascertain what now exists in these various departments?

Mr. McCARL. Yes.

Mr. THOM. Do you not think it would be wise for this committee to have the benefit of your services in finding out what they do have, and suggestions as to proposed changes?

Mr. McCARL. If that would be beneficial, I would be glad to serve.

Mr. THOM. I think such a survey, would reveal a great deal of worthwhile information on which to base legislation. After all, it is going to be largely what elements you will want to go into the cost accounts, and that is easily prescribed.

Mr. McCARL. The elements should be disclosed as elements. It may be that industry will have elements which we do not have, or there will be lacking elements which we do have. Any cost accounting must reveal what makes it up.

Mr. THOM. The Tennessee Valley Authority, which is a sort of business that competes directly with private business, is setting up a system by which they

are taking account of depreciation and by which they are taking account of the equivalent of taxes in order as near as possible to have all the expense items considered that apply in private business. I should like to know what those elements are, and what the scheme of the Tennessee Valley Authority is. It has been suggested to me whether you could detail under the law a man from your Bureau to assist us in a survey.

Mr. McCARL. I might make the survey for you; I would suggest that when you have reached some conclusion on what you would like to unearth—we are so busy I dislike to spend any time on something you are not going to need—when you conclude what you need, I would be glad to help you get it. Every man in the office is working overtime, trying to accomplish things that must be done, and if the committee can conclude what it would like to do, we will go to work on it and supply such service as is necessary.

Mr. THOM. Would it take more than one man to find out what the Tennessee Valley Authority is doing?

Mr. CARPENTER. Would confusion and inefficiency in the Government be brought about by the enactment of this legislation?

Mr. McCARL. There are certain elements of this measure I have not discussed, because I think they relate to policy; for instance, the Government bidding against another concern. I am interested in the bill and am trying to limit my discussion to what would benefit the Government. A proper cost-accounting system ought to provide a method of ascertaining cost, and just what the bill is to provide is up to you; I think you are entitled to the information; I do not see that any confusion should result from disclosing what it costs to do a job.

Mr. WHITTINGTON. Assuming that we have a uniform accounting system, I think we are not going to get results unless we go further, and it occurred to me that your Department would be the proper Department to be vested with the authority to make it effective. In other words, there ought to be an auditing or check up by some supervisory authority to ascertain if property is properly accounted for, and if funds are properly accounted for; even if we have a uniform system, what would you have to say with respect to some auditing to see that the system is being carried out? If we have a uniform accounting system, it is not of the value that it should be unless you have some agency that goes along and follows up to see if they are carrying out the system. What do you think is necessary to make this effective?

Mr. McCARL. That is one of the things you have to have, some means to make it effective.

Mr. WHITTINGTON. In line with what the gentlemen from Virginia and New York have said, it strikes me that this committee could ascertain from Admiral Peoples whether or not they are functioning; whether the Navy has stores which could be used by the Army; that is a matter of ascertaining facts.

Mr. McCARL. But it has no relation to this.

Mr. RICH. I was going to suggest to you, as you know, we already have section 7 in the bill, which relates to the Comptroller General.

Mr. WHITTINGTON. I recall that is a part of the suggested legislation; I was interested in getting such a uniform accounting system and authority to follow that up. I think we ought to go further; I want to give the Comptroller more authority; not only to report whether it has been installed, but to let him audit it. I think his authority ought to be extended now.

Mr. RICH. General, there seems to be some confusion in the minds of many that the words "standard system of cost accounting" would, you might say, rejuvenate all departments. Those words "standard system" do not necessarily mean that every Department of the Government would have to be revamped in order to comply with the bill, having in it the word "standard", as used by business interests, would it?

Mr. McCARL. What is the language?

Mr. RICH. "The establishment and maintenance of a standard system of cost accounting." Would that necessarily confuse the mind of anyone and indicate that everything would have to be reorganized to meet a system of that kind?

Mr. McCARL. No; those things are handled in a practical manner. I do not see much to the words, in or out. It would have to be practicable; practicability is the essential thing, and you would have to study the local problems.

Mr. RICH. You would just make it practical, the same as any business. Many people are doubtful about the word "standard."

Mr. EICHER. With further reference to the mechanics of the proposed legislation, the bill in its present form makes it mandatory on all executive departments. Assuming the committee should confine the purpose of this legislation to the original purpose that inspired the bill, to ascertain the comparative cost of manufac-

turing in Government departments as compared with some private industry, do you not think it would be advisable to make the bill more flexible and not mandatory on every department, and leave a discretionary power with the Comptroller General, for instance, to determine if possible, whether any particular department was in competition with private industry?

Mr. McCARL. It might have a little more flexibility than it has; it might be helpful; I think Congress should take the responsibility however, to indicate exemptions, if any are to be granted.

Mr. EICHER. One difficulty of the existing law is you have the discretion but it is difficult to exercise.

Mr. McCARL. We have the authority, but it is difficult to exercise. Installing an administrative accounting system depends entirely upon the interest of the fellow you are working for, the head of the department. If he really wants assistance, we have no trouble at all; we get along famously, but you step into a room where help is not wanted and you are met by "we are getting along fine." You are not always sure what they mean by getting along fine. It may be all right for what they are doing but not necessarily in the Government's interest.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, January 29, 1934.

HON. JOHN J. COCHRAN,
Chairman Committee on Expenditures in the
Executive Departments, House of Representatives.

MY DEAR MR. CHAIRMAN: There is before me your request for my views on H. R. 6038, entitled "A bill to provide for the establishment and maintenance of a standard system of cost accounting and cost reports for the executive departments of the United States." The apparent purpose of the measure has been carefully considered and in my judgment the enactment of legislation to accomplish such purpose will ultimately be necessary if the business of the Government is to be conducted on an economical and efficient basis.

Under the provision of the bill agencies of the Government will be required to establish and maintain a uniform system of cost accounting and cost finding which will disclose the cost of each and all factors entering into and forming part of the cost of any manufacturing, construction, reconstruction, or repair operation undertaken. This appears to limit the operation of the act to those activities involving manufacturing, construction, reconstruction, and repairs. Several of the departments and establishments of the Government in some form or other and to a greater or less degree are engaged in industrial or merchandising activities for the Government, although the greater portion of such business is let out to private contractors. It would seem that the provisions of the bill should be so flexible as to permit the extension of cost keeping to all Government activities.

An existing condition which is subject to abuse and may be corrected by the enactment of legislation along the lines proposed by the bill is the present possibility of expending public funds for a given purpose in excess of express appropriation limitations for such purpose. The present system of accounting does not disclose the contributions obtained from other sources to supplement limitations expressly fixed by the Congress, as for example, the diversion of inventories and services paid for from other appropriations; hence the will of the Congress may in a given case be largely defeated, not always in a deliberate attempt to that end but because the means for doing so are readily available.

The text of the bill seems clear and susceptible to definite application except as to one feature. There is included as an element of cost "interest on investment in property." The question of whether interest on invested capital should be figured and treated as an element of costs is one that has long been debated. There is involved the difficulty of determining the rate of interest that should be handled on the books, whether interest is to be charged on fixed investment or current investment, or both, and whether interest will be computed on fluctuation of investment values. There are many other practical difficulties in the application of the theory of charging interest on invested capital, notwithstanding that the theory seems sound, and the difficulties encountered commercially will be multiplied many times in governmental accounting.

The expense incident to maintaining a complete cost-accounting system for the Government should not materially increase the expenditure now made for fiscal accounting, as it seems entirely feasible to operate a cost system in conjunction therewith, and the present facilities and personnel should, to a great extent and under proper administration, absorb the additional work involved. I hesitate to venture an estimate of the cost of administering the law, because of

insufficient data available upon which to predicate such an estimate, but I confidently believe that through the operation of a proper cost-accounting system there will result economies and advantages that will many times outweigh the cost thereof.

It is believed the pending bill will require further amendment. For instance, in the interest of economy and effectiveness, as well as to insure the desired results and make needed information readily available, there should be, to the fullest extent possible, uniformity of method, form, etc., through the Government, and to exact full compliance possibly there should be provided in the law means to that end.

Should the committee decide to report favorably the bill or one having a similar purpose, this office will gladly render you every possible assistance, if desired, in working out such amendments and new provisions as will accomplish the committee's purposes.

Sincerely yours,

J. R. McCARL,
Comptroller General of the United States.

Senator CLARK. Captain Huntington, who are the other naval officers to be heard?

Captain HUNTINGTON. I do not know whether they wish to be heard. They came down in case you wanted to know any details of manufacture. They are specialists in certain things, according to my statement. They are here in case you wanted to interrogate me on certain matters, so they could supplement what I had to say.

Senator CLARK. Very well. We will not go into that now. We will have subsequent hearings at which they can appear if they wish.

General SCHULL. Senator, Major Bragdon, of the Corps of Engineers, is here; and Major Prentiss, of the Chemical Warfare Service, is here.

Senator CLARK. We will hear Major Bragdon.

STATEMENT OF MAJ. J. S. BRAGDON, CORPS OF ENGINEERS, OFFICE CHIEF OF ENGINEERS

Major BRAGDON. Mr. Chairman, I wish to make some comments on S. 1, a bill for the establishment and maintenance of a procedure for cost accounting and cost reporting for Federal agencies.

Section 1: Although not completely clear, it is our interpretation of the bill that section 1 does not apply to construction work, which is the activity in which the Engineer Department is primarily interested. It is suggested that this be clarified by addition of a proviso that the act shall not apply to Federal agencies whose activities are construction of public works.

There can be no objection to establishing uniform principles of cost accounting for all Federal agencies if made flexible so as to provide for the variation in needs of all the agencies and if the administration is left in the hands of the proper governmental agency.

The present bill goes beyond the purpose announced in the preamble in that in section 1 it prohibits production activities by the Government unless the Federal agency can produce more cheaply than private commercial agencies. The rule, however, should be made flexible to permit the heads of departments or their duly authorized representatives discretion to depart therefrom in certain cases.

Senator CLARK. Major, could you insert portions of the statement in the record that are simply general criticisms or opinions as to the bill which have heretofore been otherwise expressed by the War Department, and confine your oral statement particularly to concerns

of your own corps? In other words, we are in the position of having several representatives of the Army and Navy coming here and expressing the opinion of the department as to the undesirability, for instance, of having the Comptroller General put in charge of this matter, which has already been put in by the Secretary of War and the Secretary of the Navy themselves in letters which have previously been placed in the record. I do not think it is necessary for the committee to hear the private opinions of each bureau chief on the things which have already been put in the record. In other words, we should like to have you confine yourself to the matters which are of particular concern to your own corps.

Major BRAGDON. I will come to the points which I think have not been brought out.

Senator CLARK. Very well; we will be glad to have you do so. That will be helpful to the committee.

Major BRAGDON. My first suggestion is that section 1 should have specifically stated therein all exceptions. These exceptions which we think should be made are in those cases where secrecy in production of military supplies is necessary, where emergencies arise such as now exempt from the requirement for advertising, where the Government has already a large investment in buildings and plant and it is necessary in the public interest that they be maintained either for reasons of national security or as insurance against excessive bids by commercial agencies.

I have three reasons why we think the Comptroller General should not prescribe the forms and statements, which I do not believe have been brought out as yet.

Senator CLARK. We will be glad to have those. My suggestion was that there was no necessity for several officials of the War Department reiterating the same information. We would be very glad to have the specific suggestions.

Major BRAGDON. Cost keeping is not auditing, and auditing is the basic function of the Comptroller General. Cost keeping is essentially technical in nature and inextricably interwoven with the peculiar technique of the individual performing agency, whether that agency's function is primarily manufacturing, warehousing, construction, and so forth.

The prime purpose of cost keeping is to keep those responsible for the work itself informed as to whether the funds being expended are being expended economically not only for the project as a whole, but for each feature or process of the project or operation. It is by observing the costs of the component features of the work that the responsible officer locates excessive costs and immediately sets out to remedy the weak spot. He must have the knowledge of the technique of the work and of the normal costs thereof to detect the weak spot, and he must set about correcting it at once. An auditor examining forms filled in with figures for a process he does not understand cannot do it. Only with a corps of technical assistants duplicating the departments could the Comptroller General perform the function of interpreting and using cost reports.

Senator CLARK. May I interrupt you to ask a question, Major? The Corps of Engineers has a separate cost-accounting system?

Major BRAGDON. Yes.

Senator CLARK. In addition to the one of the Quartermaster's Department and the one of the Ordnance Department and any others there may be? The Corps of Engineers has a separate system of its own, I understand.

Major BRAGDON. That is correct; yes, sir.

The third reason why the Comptroller General should not prescribe a uniform cost-keeping system is that systems of cost keeping vary with different types of work. I have already brought out that point, so I will not go further with that.

I believe the purpose of establishing uniform cost-keeping principles would be attained if Congress prescribed that the President shall establish such a system and that the system be drafted by a board consisting of representatives of the heads of the various governmental departments or agencies, operating much as the present Federal Contract Board. This Board has instituted the standard Government contract forms, which contain the standard uniform paragraphs made mandatory upon all governmental agencies, although in particular cases they may be modified for special needs by the Board. Each department then issues its specifications and a completed contract consists of the standard general paragraphs and the individual specifications. Similarly, a few general standard uniform cost-keeping forms could be adopted with permission to agencies to work out all detailed forms to suit their needs.

With respect to the intent of requiring work to be done by contract, the Engineer Department now operates under a law which allows it to award contracts if the contract price is not more than 25 percent in excess of the Government estimate.

I should like to read that provision of law. This is section 8 of the River and Harbor Act of March 2, 1919:

That no part of funds herein or heretofore appropriated for work of river and harbor improvement shall be used to pay for any work done by private contract if the contract price is more than 25 percent in excess of the estimated cost of doing the work by Government plant: *Provided*, That in estimating the cost of doing the work by Government plant, including the cost of labor and materials, there shall also be taken into account proper charges for depreciation of plant and all supervising and overhead expenses and interest on the capital invested in the Government plant, but the rate of interest shall not exceed the maximum prevailing rate being paid by the United States on current issues of bonds or other evidence of indebtedness.

Senator CLARK. There you have what might be called a cost-accounting system set up by law, at least an outline of it.

Major BRAGDON. Our cost-accounting must, of course, contemplate those charges. The announced policy of the Department is to do its work by contract whenever more economical. Last year it carried out 62 percent of all its work by contract, or 81 percent of work it was practical to do by contract. In no case that I know of did it do any work by force account where there was a lower bid. In most cases where we have rejected bids considered excessive, we have performed the work within the Government estimate.

Summing up as to section 1, we believe the basic idea of doing work commercially where more economical is sound; the mandatory wording of the section is too rigid and should have certain exceptions, or better made discretionary with heads of departments but with a leeway of percentage in excess of the Government estimate within which contracts could be awarded; and that if a uniform cost-keeping system be

prescribed it be drafted under the direction of the executive by the agencies who are responsible for costs.

Section 3: The definitions in this section should be left to the agency which prescribes the system, and items should not be defined except in the broadest terms. Congress can attain its purpose by simply prescribing all the charges which it believes should be included in the costs. To illustrate what I mean there. Section 3 defines "direct labor, direct materials, direct expenses." Now in our system of cost-accounting we believe that it is a fundamental principle to charge directly to the work wherever we can. Therefore we do that. And overhead includes only those items which cannot be so charged, instead of a miscellany of all items which cannot be put quickly under direct labor, direct material, or direct expense.

All items listed in section 3, except property taxes, are included in engineer department cost accounts and also in estimates for comparison with bids. Insurance and depreciation are included. In fact, we have an additional item, a charge for idle plant, which is not mentioned in section 3. That item is included in our cost accounts.

Section 4: One of the fundamentals of the Engineer Department's cost-keeping system is that costs must reconcile or balance to the penny with expenditures from appropriations for the work. This is sound. The items listed in parentheses on page 6, lines 4 to 7, viz, insurance, employees' liability compensation, taxes, licenses, performance bonds and penalties, are not expenditures from appropriations for the work. Hence, these items, except insurance, are not included in current costs. However, in Government estimates for comparison with contractors' bids we do include employees' compensation and interest as well as all charges (including insurance and depreciation) included in cost reports. In other words, we make a distinction. We add these charges in any estimate which we are going to compare with the contractor in the bid although they are not included in current cost reports.

The only items not included in estimates are taxes, licenses, and performance bond premiums. However, the 25 percent in excess of the Government estimate, within which award may be made, amply takes care of these items, plus a reasonable profit. This is another reason for commending this 25 percent discretionary leeway method described earlier. Of course I think for supplies that 25 percent is excessive. There is a much greater hazard in contracting for heavy construction work than there is for manufacturing.

I do not believe reports of Government costs should be made public. It would mean that where by virtue of superior management or other economic reason a commercial firm was so fixed as to submit an exceptionally good price, it probably would not do so since it would know that it was mandatory to the Federal agency to award if just below the Government estimate, and all firms would put in bids just a little lower than known Government costs. The United States would not receive the free and open competition contemplated in Revised Statutes 3709.

We have had quite a lot of experience with that. All our contractors know the 25-percent rule; and if they can possibly get any "hunch" on what the Government estimate is going to be, they would submit bids just below the 25 percent.

For the reasons set forth at length in paragraph 3, it is suggested that the President and not the Comptroller General be charged with making such a law operative and of prescribing the necessary rules and regulations.

That is all I have to submit.

Senator CLARK. I should be very glad to have you file that for the record.

Have you anything else?

Major BRAGDON. No, sir.

(The statement referred to follows:)

COMMENTS ON S. 1, SEVENTY-FOURTH CONGRESS, FIRST SESSION, "A BILL FOR THE ESTABLISHMENT AND MAINTENANCE OF A PROCEDURE FOR COST ACCOUNTING AND COST REPORTING FOR FEDERAL AGENCIES" BY MAJ. J. S. BRAGDON, CORPS OF ENGINEERS, UNITED STATES ARMY

SECTION 1. Although not completely clear, it is our interpretation of the bill that section 1 does not apply to construction work, which is the activity in which the Engineer Department is primarily interested. It is suggested that this be clarified by addition of a proviso that the act shall not apply to Federal agencies whose activities are construction of public works.

There can be no objection to establishing uniform principles of cost accounting for all Federal agencies if made flexible so as to provide for the variation in needs of all the agencies, and if the administration is left in the hands of the proper governmental agency.

The present bill goes beyond the purpose announced in the preamble in that in section 1 it prohibits production activities by the Government unless the Federal agency can produce more cheaply than private commercial agencies. The rule, however, should be made flexible to permit the heads of departments or their duly authorized representatives discretion to depart therefrom in certain cases, such as where secrecy in production of military supplies is necessary, where emergencies arise such as now exempt from the requirement for advertising, where the Government has already a large investment in buildings and plant and it is necessary in the public interest that they be maintained either for reasons of national security or as insurance against excessive bids by commercial agencies. These general exceptions should be made. The clause "except as may be specifically provided by Congress" would require special legislation to secure exemption from the rigidity of the prescription of the first section.

The proviso that the Comptroller General prescribe the forms, systems, and procedure is unsound because:

(a) Cost keeping is not auditing, and auditing is the basic function of the Comptroller General. Cost keeping is essentially technical in nature and inextricably interwoven with the peculiar technique of the individual performing agency, whether that agency's function is primarily manufacturing, warehousing, construction, etc.

(b) The prime purpose of cost keeping is to keep those responsible for the work itself informed as to whether the funds being expended are being expended economically not only for the project as a whole but for each feature or process of the project or operation. It is by observing the costs of the component features of the work that the responsible officer locates excessive costs and immediately sets out to remedy the weak spot. He must have the knowledge of the technique of the work and of the normal costs thereof to detect the weak spot, and he must set about correcting it at once. An auditor examining forms filled in with figures for a process he does not understand cannot do it. Further, these accounts would be examined 2 to 3 months after submission, and before explanatory correspondence could be exchanged with the Comptroller General the job would be done. Only with a corps of technical assistants duplicating the departments could the Comptroller General perform the function of interpreting and using cost reports. If the Comptroller General is not to perform the function of interpreting and using the cost reports he should not prescribe their form.

(c) A third reason the Comptroller General should not prescribe a uniform cost-keeping system is that systems of cost keeping vary with different types of work. For example, the Ordnance Department would be chiefly interested in a proper system for manufacturing operations; the Engineer Department in a cost-keeping system for heavy construction; the Quartermaster Department in a sys-

tem for warehousing. Even within the same department there is quite a variation in the requirements for cost reports. For example, in the Engineer Department there is a wide difference between the cost keeping for lock and dam construction and that required for repair depots.

I believe the purpose of establishing uniform cost-keeping principles would be attained if Congress prescribed that the President shall establish such a system and that the system be drafted by a board consisting of representatives of the heads of the various governmental departments or agencies, operating much as the present Federal Contract Board. This board has instituted the standard Government contract forms, which contain the standard uniform paragraphs made mandatory upon all governmental agencies, although in particular cases they may be modified for special needs by the Board. Each department then issues its specifications and a completed contract consists of the standard general paragraphs and the individual specifications. Similarly, a few general standard uniform cost-keeping forms could be adopted with permission to agencies to work out all detailed forms to suit their needs.

With respect to the intent of requiring work to be done by contract, the Engineer Department now operates under a law (sec. 8, River and Harbor Act of Mar. 2, 1919) (U. S. C. 33, sec. 624), which allows it to award contracts if the contract price is not more than 25 percent in excess of the Government estimate. (Read the provision from the act.) The announced policy of the Department is to do its work by contract whenever more economical. Last year it carried out 62 percent of all its work by contract, or 81 percent of work it was practical to do by contract. In no case that I know of did it do any work by force account where there was a lower bid. In most cases where we have rejected bids considered excessive, we have performed the work within the Government estimate.

Summing up as to section 1, we believe (a) the basic idea of doing work commercially where more economical is sound; (b) the mandatory wording of the section is too rigid and should have certain exceptions, or better made discretionary with heads of departments but with a leeway of percentage in excess of the Government estimate within which contracts could be awarded; and (c) that if a uniform cost-keeping system be prescribed it be drafted under the direction of the executive by the agencies who are responsible for costs.

Section 2: No comment.

Section 3: The definitions in this section should be left to the agency which prescribes the system, and items should not be defined except in the broadest terms. Congress can attain its purpose by simply prescribing all the charges which it believes should be included in the costs.

The Engineer Department has a very complete cost-keeping system. Practically all the costs listed in section 3 are included. But it is considered a principle of good cost keeping to charge directly to work where it is possible to do so, and that overhead should be only those items which cannot be so charged, instead of a miscellany of all items that cannot be put quickly under direct labor, direct material, or direct expense. Hence, in many of the items under overhead in this section, the Engineer Department charges direct to specific items of work, or to deferred or clearing accounts which are later distributed to cost features of the work. The entire Department has been trained in this system. This is explained as an example of why too much detail should not be prescribed in a law, or even uniform regulation for cost reports.

All items listed in section 3, except property taxes, are included in Engineer Department cost accounts and also in estimates for comparison with bids. I include insurance and depreciation. In fact, an additional item, a charge for idle plant, which is not mentioned in section 3, is included.

Section 4: One of the fundamentals of the Engineer Department's cost-keeping system is that costs must reconcile or balance to the penny with expenditures from appropriations for the work. This is sound. The items listed in parentheses on page 6, lines 4 to 7, viz, insurance, employees' liability compensation, taxes, licenses, import duties, performance bonds, and penalties are not expenditures from appropriations for the work. Hence, these items, except insurance, are not included in current costs. However, in Government estimates for comparison with contractors' bids we do include employees' compensation and interest as well as all charges (including insurance and depreciation) included in cost reports.

The only items not included in estimates are taxes, licenses, import duties, and performance bond premiums. However, the 25 percent in excess of the Government estimate within which award may be made, amply takes care of these items plus a reasonable profit. This is another reason for commending this 25 percent discretionary leeway method, described earlier in paragraph 5, in lieu of the mandatory prescription in section 1. The percentage of leeway, of course, might

be smaller, probably should be smaller for supply contracts than for construction, since the hazard is less.

I do not believe reports of Government costs should be made public. It would mean that where by virtue of superior management or other economic reason a commercial firm was so fixed as to submit an exceptionally good price, it probably would not do so since it would know that it was mandatory to the Federal agency to award if just below the Government estimate, and all firms would put in bids just a little lower than known Government costs. The United States would not receive the free and open competition contemplated in Revised Statutes 3709.

Section 7: For the reasons set forth at length in paragraph 3, it is suggested that the President and not the Comptroller General be charged with making such a law operative and of prescribing the necessary rules and regulations.

Summing up, a bill revised to meet the main objections contained in these comments would provide about as follows:

(a) Prescribe that the President cause a study to be made of existing methods of keeping and recording costs in the various governmental agencies, and that based thereon he establish standard cost-keeping regulations with provisions for modifications to meet the needs and type of activity of the departments. This could be required to be accomplished by convening of the next Congress.

(b) That governmental agencies be prohibited from manufacturing and production activities which they cannot show by cost records or otherwise they can do more cheaply than commercial agencies, unless Congress shall specifically except certain agencies and except where necessary to preserve secrecy in the interest of public security, where emergency or prior investment of public money requires that the production by the Federal agency as in the public interest, a finding in the case of exceptions to be made by the head of the department or his duly authorized representative.

(c) Prescribe no details of the cost-keeping system, but require that, for purposes of comparison with bids of commercial agencies, the Government estimate shall include all charges, listed specifically as Congress deems proper. If then considered necessary, it might also be prescribed that these charges be shown in amount in cost reports whether or not incorporated in reconciliation with expenditure from appropriations.

Such an act would undoubtedly accomplish the twofold purpose of Congress in establishing standard cost-keeping regulations and preventing unfair and uneconomical competition by governmental agencies with commercial enterprises.

STATEMENT OF MAJ. A. M. PRENTISS, REPRESENTING THE CHEMICAL WARFARE SERVICE, UNITED STATES ARMY

Major PRENTISS. Senator Clark, I represent the Chemical Warfare Service of the Army; and we have one large manufacturing establishment at the Edgewood Arsenal, right outside of Baltimore. I have prepared a short statement that covers some of the peculiar conditions which we have, and which is in support of, and reinforces, what General Schull said about our arsenal conditions, generally.

If you desire, I shall just submit the statement for the record.

Senator CLARK. I should be very glad to have you submit your statement for the record, and I should be very glad to have you make any statement about the situation, generally. Of course, as I said, I do not see any necessity for duplicating the statements of the various departments.

Major PRENTISS. Well, we have one or two special conditions about which I should like to speak; and then I shall submit the statement.

Senator CLARK. Very well.

Major PRENTISS. First of all, I may say that we do all the manufacturing work for the Army, Navy, and Marine Corps, at this one establishment.

With regard to this bill, a careful study of a similar bill at the last session of Congress, and when this matter was brought up, led us to

believe that we could not operate under it. In other words, we have a large war plant, costing some 35 million dollars, that has to be maintained. It is scattered over a large geographical area, and therefore is, of necessity, an uneconomical plant for manufacturing our small peace-time requirements. Thus, for small peace-time production we cannot hope to compete, dollar for dollar, with a plant designed solely for reducing the cost to the minimum.

I might say that if this bill is enacted, and we had to put the work out, Congress would then be faced with the necessity of providing out-and-out appropriations for maintaining this plant; and I believe it is more economical the way it is now.

Senator CLARK. Why is it more economical, Major? I am interested in that, because the Chemical Warfare factory is one activity of the Government which I think should have an absolute Government monopoly; and I should like to know why it would be more expensive to do it one way than another.

Major PRENTISS. All right, sir.

Well, the way we maintain this plant is by a small appropriation, direct from Congress, for operation and maintenance; and then, in addition to that, we charge an overhead on our manufacturing work whether for ourselves, or for the Navy, or for some other department. This manufacturing work bears its proper share of the overhead and operating expenses of the arsenal.

Now, if this work went outside, the overhead that we now earn as a part of this manufacturing work, would have to be supplied by Congress, as a pure appropriation, out and out. So I feel that this present system does help to maintain our plant, which cannot be maintained otherwise, except through larger appropriations by Congress.

Senator CLARK. Is that in your statement, Major?

Major PRENTISS. Yes, sir.

Senator CLARK. I should be very glad to examine that; and I am certainly familiar with it.

Major PRENTISS. There is one feature that has not been brought out by anyone, yet, which is peculiar to the Chemical Warfare Service.

The particularly drastic feature of S-1, as it would affect the Chemical Warfare Service, is contained in section 1 thereof. The Chemical Warfare Service appropriation is made in one lump sum, rather than dividing the various projects into a series of appropriations. Consequently, under section 1 of the bill, no funds in this appropriation could be expended for operation, maintenance, research, nor for the providing of utilities and necessary supplies for any project not involving manufacture on which Edgewood Arsenal was engaged while the Arsenal is simultaneously engaged in the manufacture of an article, such as gas masks, which could be produced by commercial concerns.

In other words, the way the bill reads now, and as literally interpreted, it goes even farther than manufacturing work, and would prevent us from doing research work, where some concern might conceivably put in a competing bid.

And of course, because of the nature and secrecy of that work, it is contrary to the public interest that that kind of work should ever go outside.

Then, finally, the very nature of the products and materials in which we are dealing are such that, whatever theory you hold about Government manufacturing of munitions of war, whether it should be all done in Government plants, or partly in industry, or otherwise, certainly these classes of materials should not go out into general manufacturing. I speak now of the toxic gas materials, and the protective appliances against them.

Senator CLARK. Certainly.

Major PRENTISS. We feel we should have an exemption, in any event, if this bill is enacted into law.

Senator CLARK. Will you file your statement?

Major PRENTISS. Yes, sir.

(The statement by Major Prentiss follows:)

STATEMENT OF MAJ. A. M. PRENTISS

1. A careful study has been made of H. R. 200, Seventy-fourth Congress, first session, and of S. 1, Seventy-fourth Congress, first session, which differs from H. R. 200 only in that the Senate bill contains a clause which permits the Congress to specifically except any particular government agency from compliance therewith either for all work to be carried out by that agency or for some individual manufacturing order.

2. It will appear that S. 1 is intended to preclude Government agencies from manufacturing, for themselves or for other Government agencies, any articles or any components thereof which are susceptible of manufacture in a commercial concern. For example, it would preclude the making of gas masks by the Chemical Warfare Service, both for itself and for the Navy Department, unless it was conclusively shown that after adding all the costs presumably chargeable by the Government in section 3 and section 4 of the bill, it was less than the sum bid by the commercial concern.

3. Similarly this would preclude the Chemical Warfare Service from obtaining services from other Government departments such as the Ordnance Department for the manufacture of fuzes and other metal components. In fact, as the bill is now written, it would be possible, as is sometimes done, for a manufacturer to bid on a proposal practically at direct labor and direct material costs in order to keep his factory operating, whereas the Government manufacturing facilities, bidding in competition with him, would be required in every instance to add the full amount of all indirect charges, overhead and administrative expenses. Thus it would be impossible to know, for any length of time in advance, the amount of work which the Government facility would be expected to perform.

4. The institution of a cost-accounting system to properly compute and allocate to each manufacturing order all the costs outlined in sections 3 and 4 of the bill, including preparation of an unknown quantity of reports to be available for inspection or sale, as outlined in sections 5 and 6 of the bill, would cause a great and unnecessary increase in the cost of the work performed in Government manufacturing facilities.

5. After a study of H. R. 6038, Seventy-third Congress, it was estimated that it would be necessary to expend at Edgewood Arsenal between \$100,000 and \$500,000 for the necessary facilities, such as meters, rearrangement of supply lines for electricity, steam, brine, etc., to fairly allocate costs to each and every order, and further, that it would be necessary to set up a cost-accounting system requiring the services of from \$30,000 to \$50,000 worth of personnel per annum, in excess of present costs, to carry out the provisions of this former bill. S. 1 has added the cost of preparing reports and making them available to any person desiring same. As the bill provides that the types and quantities of reports to be made will be determined by the Comptroller General of the United States, their exact cost cannot be estimated.

6. Even in cases where it is desirable to turn quantity production over to commercial manufacturers, there is always a certain stage in development and mass-production methods which require manufacture within Government establishments in order that unforeseen contingencies in the drawing and design of the article being developed may be changed, corrected, and modified in the preliminary production period. The enactment of this bill into law would, however, preclude this form of manufacture in Government plants, as well as the manufacture of items which have become standardized and which are required in quantity.

7. The particularly drastic feature of S. 1, as it would affect the Chemical Warfare Service, is contained in section 1 thereof. The Chemical Warfare Service appropriation is made in one lump sum, rather than dividing the various projects into a series of appropriations. Consequently, under section 1 of the bill, no funds in this appropriation could be expended for operation, maintenance, research, nor for the providing of utilities and necessary supplies for any projects not involving manufacture on which Edgewood Arsenal was engaged while the arsenal is simultaneously engaged in the manufacture of an article, such as gas masks, which could be produced by commercial concerns.

8. It is believed self-evident that the Government must maintain certain uneconomical-sized plants in order that facilities may be available for expansion for national defense in an emergency. Any well-managed commercial concern can, and generally will, set up and operate only such facilities as approximately cover their immediate requirements. Thus, any well-managed commercial concern should on an average, be able to underbid Government agencies on any individual job, but the fact that the commercial concern could fill a small peacetime order would not assure the Government the needed facilities for an emergency, but in competing with the commercial concern the Government agency would have to base its costs upon those obtained by the use of plants of an uneconomical size. The net result of this would be that, while the Government would apparently be procuring an individual item through a commercial concern for a lesser cost than if it were made in a Government facility, the actual cost of commercial manufacture would, over a period of time, be in excess of the cost of manufacture by the Government itself.

9. As S. 1 is now written no material nor supplies which are wholly or in part of a secret or confidential nature could be manufactured in Government facilities without securing bids from commercial concerns to show that the cost of manufacture would be less in Government facilities than in industry. Thus, it would be necessary to reveal the secret or confidential nature of the articles to be obtained, even though they were eventually manufactured by the Government itself.

10. In addition to the objections to S. 1 outlined above, it is believed that there are many intangible benefits which accrue to the Government in the use of its own facilities for manufacture which cannot clearly be defined as to costs. There are in practically all Government facilities trained personnel who have become proficient in the class of work which is generally of a particular type and for which similarly trained personnel is not available in industry. Practically all Government agencies, and particularly those concerned with national defense, endeavor to spread their manufacturing work over such periods of time as will allow a continued employment through the years for its trained operators. If this work became intermittent, due to the fact that some orders were done in Government facilities and some were consummated by civilian concerns, it would be impossible to hold this personnel, for they would not stay on a job where their continuity of employment was in jeopardy. Also, the cost of maintenance of a plant which is in operation is generally less than when the plant is maintained in a stand-by condition. It is not believed that any system of cost accounting could be instituted which would give the Government credit for this saving of cost, in comparing any bid of a commercial concern and of a Government agency for any particular order.

11. Finally, S. 1 provides, in section 1 thereof, that the Comptroller General of the United States shall prescribe the forms, systems, and procedure for cost keeping and cost reporting by Federal agencies. It is believed that the responsible executive authority should be charged with this responsibility, rather than the Comptroller General, who, under the law, is responsible to see that funds appropriated by the Congress are properly applied and properly disbursed, and is not responsible for the methods used in consummating the work for which funds are furnished in the appropriation.

12. In view of the above objections, it is urged that bill S. 1 be not enacted into law on the grounds that it will be detrimental to the best interests of the United States and particularly to national defense.

Senator CLARK. The committee will now take a recess, in view of these other gentlemen who are to be heard. We shall recess until a week from today, next Thursday, at 10 o'clock.

(Thereupon, at 12:05 p. m., a recess was taken until Thursday, Mar. 7, at 10 a. m.)

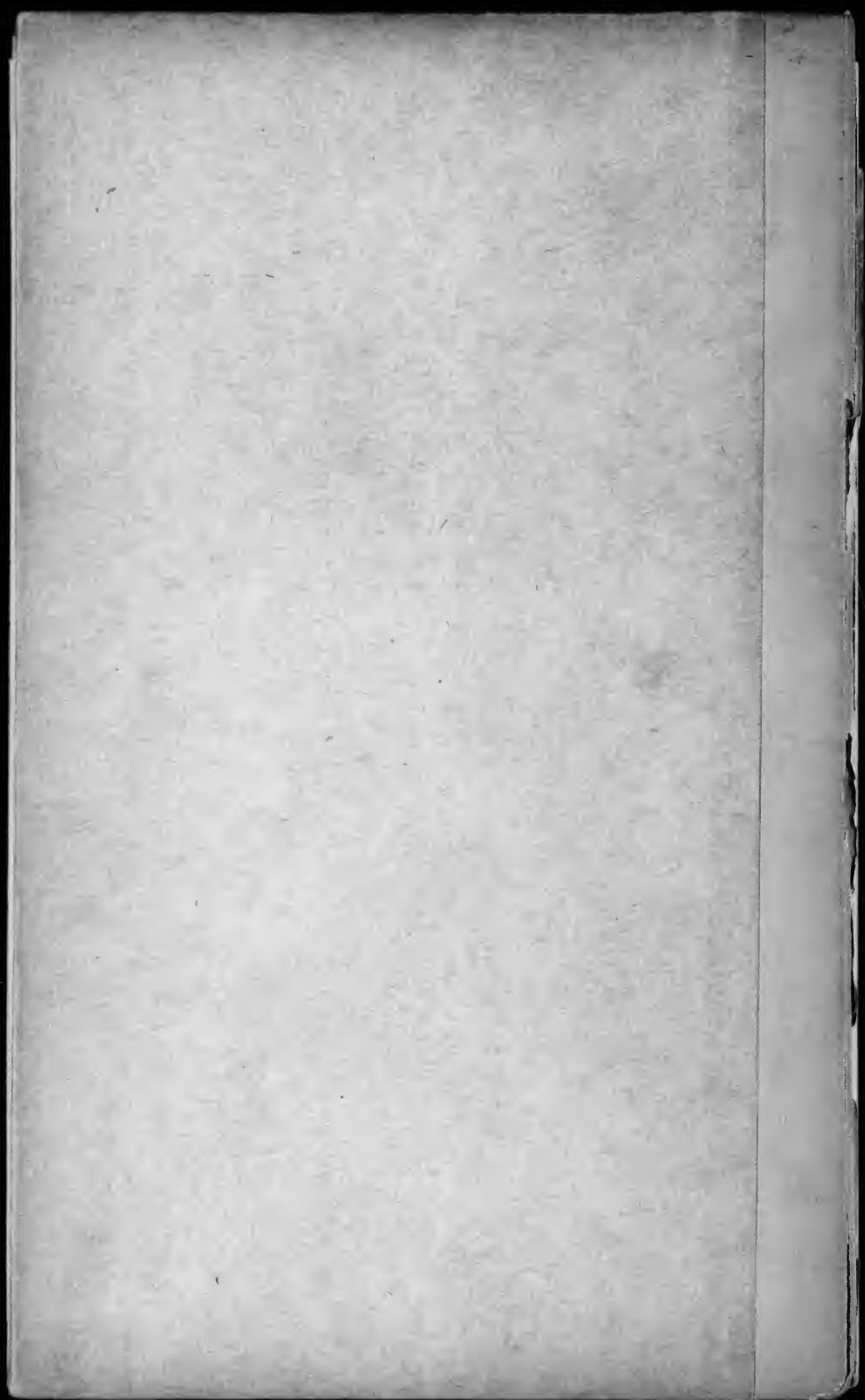
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Cost accounting & cost reporting



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